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SLS INTERNATIONAL INC  
Form POS AM  
June 28, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 28, 2004  
REGISTRATION NO. 333-108302

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

POST-EFFECTIVE  
AMENDMENT NO. 1  
TO  
FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SLS INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE	3651	52-2258371
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3119 SOUTH SCENIC  
SPRINGFIELD, MISSOURI 65807  
(417) 883-4549  
(Address and telephone number of principal executive offices)

JOHN M. GOTT  
3119 SOUTH SCENIC  
SPRINGFIELD MISSOURI 65807  
(417) 883-4549  
(Name, address, and telephone number of agent for service)

JEFFREY M. MATTSON  
FREEBORN & PETERS LLP  
311 SOUTH WACKER DRIVE, SUITE 3000  
CHICAGO, IL 60606-6677  
(312) 360-6312

(Name, address, and telephone number for copies of all communications)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	MAXIMUM AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)
Common Stock, \$.001 par value	1,100,000	\$1.59	\$1,749,000

(1) This price is used solely for the purposes of computing the amount of the registration fee pursuant to Rule 457(c) of the Securities Act and is estimated, based on the high and low prices of the common stock on August 20, 2003.

(2) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

SLS INTERNATIONAL, INC.

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1,100,000 SHARES OF COMMON STOCK

This prospectus relates to the sale of up to 1,100,000 shares of our common stock by two selling stockholders. The prices at which the selling stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive proceeds from the sale of our shares by the selling stockholders.

Our common stock is quoted on the Nasdaq Over-The-Counter Bulletin Board under the symbol "SITI.OB." On June 10, 2004, the last reported sale price for our common stock as reported on the Nasdaq Over-The-Counter Bulletin Board was \$2.86 per share.

THE SECURITIES OFFERED IN THIS PROSPECTUS INVOLVE A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER THE "RISK FACTORS" BEGINNING ON PAGE 4 BEFORE PURCHASING OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SLS INTERNATIONAL, INC.  
3119 South Scenic  
Springfield, Missouri 65807  
(417) 883-4549

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Unless otherwise specified, the information in this prospectus is set forth as of June 18, 2004, and we anticipate that changes in our affairs will occur after such date. We have not authorized any person to give any information or to make any representations, other than as contained in this prospectus, in connection with the offer contained in this prospectus. If any person gives you any information or makes representations in connection with this offer, do not rely on it as information we have authorized. This prospectus is not an offer to sell our common stock in any state or other jurisdiction to any person to whom it is unlawful to make such offer.

### PROSPECTUS SUMMARY

This summary does not contain all of the information that you should consider before investing in our common stock. You should carefully read the entire prospectus including "Risk Factors" and the consolidated financial statements before making an investment decision.

#### THE COMPANY

We manufacture premium-quality loudspeakers and sell them through our dealer networks. The speakers use our proprietary ribbon-driver technology and are generally recognized in the industry as high-quality systems. We sell a Professional Line of loudspeakers, a Commercial Line of loudspeakers, Home Theatre systems, a line for recording and broadcast studios, a line for contractor installations and touring companies, and line of in-wall, in-ceiling and outdoor loudspeakers. Our executive offices are located at 3119 South Scenic, Springfield, Missouri, 65807, with telephone number (417)883-4549.

#### THE OFFERING

We entered into option agreements with Steerpike (Overseas) Ltd. and Beth Broday, pursuant to which we granted options to purchase 1,100,000 shares of our common stock for \$0.25 per share. Steerpike and Ms. Broday, the selling stockholders under this prospectus, are offering for sale up to 1,100,000 shares of our common stock, which are the shares issuable upon exercise of the options. Through June 10, 2004, Steerpike had already exercised options for 260,000 shares of our common stock and sold such shares. On June 10, 2004, there were 29,374,780 shares of our common stock outstanding. Upon the selling stockholders' exercise of the options, the number of shares offered by this prospectus (840,000 shares, as a result of Steerpike's prior sale of 260,000 shares) represents 2.78% of our total common stock outstanding on June 10, 2004.

#### OTC BULLETIN BOARD SYMBOL

Our stock trades on the Nasdaq Over-The-Counter Bulletin Board under the symbol "SITI.OB." On June 10, 2004, the last reported sale price for our

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common stock was \$2.86 per share.

### RESCISSION OFFER

From May 1, 2002 through May 10, 2004, warrant holders exercised 2,545,800 of our Class A Warrants and 22,600 of our Class B Warrants for a total of 2,568,400 shares of common stock. The warrant holders paid an aggregate of \$1,340,700 for these exercises. From May 1, 2002 through May 10, 2004, the registration statement that we filed with the U.S. Securities and Exchange Commission to register the common stock issuable upon exercise of these warrants may not have been "current" because the registration statement had not been amended to include our most recent audited financial statements. As a result, the former warrant holders may be entitled to demand a rescission of their previous exercises of common stock. We intend to make a rescission offer to all warrant holders who exercised warrants during the period from May 1, 2002 through May 10, 2004. Once made, the rescission offer is expected to remain open for 30 days. The rescission offer would require us to repurchase the shares of common stock issued upon exercise of the warrants at their original exercise price,

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\$.50 for the Class A Warrants and \$3.00 for the Class B Warrants, at each warrant holder's option. If all warrant holders accept the rescission offer, we would be required to pay \$1,340,700 plus interest, which amount would be reduced to the extent of the proceeds from any sales of the underlying common stock by the former warrant holders. Acceptance of the rescission offer by all former warrant holders could have a material adverse effect. The current market price is over the \$.50 exercise price of the Class A warrants, and if that remains true, we would expect no former holders of Class A Warrants to accept the rescission offer. The current market price is below the \$3.00 exercise price of the Class B warrants. Only 22,600 Class B warrants were exercised during the rescission offer period, making our potential rescission liability to the former Class B warrant holders equal to \$67,800 plus interest, which amount would be reduced to the extent of any sales of the underlying common stock by the former warrant holders.

### RISK FACTORS

An investment in our common stock involves various risks, including those described in the risk factors below. You should carefully consider these risk factors, together with all of the other information included in this report, before you decide to invest in our common stock. If any of the following risks, or any other risks not described below, develop into actual events, then our business, financial condition, results of operations, or prospects could be materially adversely affected, the market price of our common stock could decline further and you could lose all or part of your investment.

WE HAVE A HISTORY OF LOSSES AND MAY NOT BE PROFITABLE IN THE FUTURE IF WE DO NOT ACHIEVE SUFFICIENT REVENUE TO ABSORB RECENT AND PLANNED EXPENDITURES.

We have experienced significant operating losses since investing in the development of ribbon driver technology in 1998 and, through December 31, 2003, have an accumulated retained deficit of approximately \$10,843,561. If we do not achieve continued revenue growth sufficient to absorb our recent and planned expenditures, we could experience additional losses in future periods. These losses or fluctuations in our operating results could cause the market value of

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our common stock to decline.

### WE WILL DEPEND ON ADDITIONAL CAPITAL.

Our ability to implement our strategy and expand our operations largely depends on our access to capital. To implement our long-term strategy, we plan to make ongoing expenditures for the expansion and improvement of our product line and the promotion of our products. To date, we have financed our operations primarily through sales of equity and the issuance of notes. We will need to issue additional equity or other securities to obtain the financing required to continue our operations. However, additional capital may not be available on terms acceptable to us. Our failure to obtain sufficient additional capital could curtail or alter our growth strategy or delay needed capital expenditures.

OUR DEPENDENCE UPON THIRD-PARTY DEALERS FOR SALES MAKES US VULNERABLE TO THE EFFORTS OF OTHERS WHICH ARE BEYOND OUR CONTROL.

Our distributors may not continue their current relationships with us and they may give higher priority to the sale of our competitors' products. In addition, to be effective, distributors must devote significant technical, marketing and sales resources to an often lengthy sales cycle. Our current and

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future distributors may not devote sufficient resources to market our products effectively and economic or industry conditions may adversely affect their ability to market or sell for us. A reduction in sales efforts or a discontinuation of distribution of our products by any distributor could lead to reduced sales and greater net losses.

### WE MAY NOT GAIN MARKET ACCEPTANCE OF OUR RIBBON DRIVER TECHNOLOGY.

We believe that revenues from our ribbon driver product line will account for a material portion of our revenue for the foreseeable future. Our future financial performance will depend on the market acceptance of our ribbon driver technology and products. The market for sound systems is sustained by ongoing technological developments, frequent new product announcements and introductions, evolving industry standards and changing customer requirements. To date, we have had limited sales of products containing our new technology ribbon drivers. If our ribbon driver technology and product line do not gain sufficient positive market acceptance, we may not achieve anticipated revenue, profits or continued viability.

### IN THE LOUDSPEAKER MARKET, WE ARE SUBJECT TO INTENSE COMPETITION.

Although our ribbon driver loudspeaker products are relatively new and emerging, the markets for loudspeaker products are extremely competitive and we expect such competition to increase. The market for sound enhancement products in general is intensely competitive and sensitive to new product introductions or enhancements and marketing efforts by our competitors. We expect to experience increasing levels of competition in the future. Although we have attempted to design our loudspeaker systems to compete favorably with competitive products, we may not be able to establish and maintain our competitive position against current or potential competitors. Aggressive competition could cause us to have sales and profitability below expectations.

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IF WE ARE UNABLE TO HIRE OR RETAIN QUALIFIED AND SKILLED PERSONNEL AS NECESSARY, WE MAY NOT BE ABLE TO DEVELOP NEW PRODUCTS OR SUCCESSFULLY MANAGE OUR BUSINESS.

We believe our success will depend in large part upon our ability to identify, attract and retain highly skilled managerial, engineering, sales and marketing, finance and operations personnel. However, we may not be successful in identifying, attracting and retaining such personnel. Our success also depends to a great degree upon the continued contributions of our key management, engineering, sales and marketing, finance and manufacturing personnel, many of whom would be difficult to replace. In particular, we believe that our future success depends on John Gott, Chief Executive Officer. We presently do not maintain key person life insurance on Mr. Gott, and we presently do not have an employment contract with him. If we experience the loss of the services of any of our key personnel, we may be unable to identify, attract or retain qualified personnel in the future. This could make it difficult for us to manage our business and meet key objectives, or achieve or sustain profits.

OUR RECURRING LOSSES AND DEPENDENCE UPON ADDITIONAL FINANCING HAVE CAUSED OUR AUDITORS TO ISSUE A STATEMENT INDICATING SUBSTANTIAL DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN.

The accountants' audit report on our financial statements for the year ended December 31, 2003 included a statement that, because of recurring losses and our dependency on the sale of securities or obtaining debt financing, there

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was a substantial doubt about our ability to continue as a going concern. If we are unable to raise additional financing to cover operating expenses and derive additional revenue from sales, we may no longer be a viable business.

SINCE OUR COMMON STOCK IS THINLY TRADED, IT CAN BE SUBJECT TO EXTREME RISES OR DECLINES IN PRICE, AND YOU MAY NOT BE ABLE TO SELL YOUR SHARES AT OR ABOVE THE PRICE YOU PAID.

You may have difficulty reselling shares of our common stock. You may not be able to resell your shares at or above the price you paid, or at a fair market value. The stock markets often experience significant price and volume changes that are not related to the operating performance of individual companies. These broad market changes may cause the market price of our common stock to decline regardless of how well we perform as a company.

OUR PATENT APPLICATION MAY NOT BE ISSUED AND EVEN IF IT IS ISSUED, WE STILL MAY NOT BE ABLE TO ADEQUATELY PROTECT THE PATENT OR OUR OTHER INTELLECTUAL PROPERTY.

In September 2002, we filed a U.S. patent application on our proprietary ribbon driver technology. Our success will depend in significant part on our ability to obtain, preserve and defend U.S. patent protection for this technology. The patent may not be issued from the patent application. The issuance of a patent is not conclusive as to its validity or enforceability and, if a patent is issued, it is uncertain how much protection, if any, will be given to our patent if we attempt to enforce it. Litigation, which could be costly and time consuming, may be necessary to enforce any patent issued in the future or to determine the scope and validity of the proprietary rights of third

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parties. A competitor may successfully challenge the validity or enforceability of our patent or challenge the extent of the patent's coverage. If the outcome of litigation is adverse to us, third parties may be able to use our patented technology without payment to us. Even if we are successful in defending such litigation, the cost of litigation to uphold the patent can be substantial.

It is possible that competitors may infringe our patents or successfully avoid them through design innovation. To stop these activities we may need to file a lawsuit. These lawsuits are expensive and would consume time and other resources. In addition, there is a risk that a court would decide that our patent is not valid, that we do not have the right to stop the other party from using the inventions, or that the competitor's activities do not infringe our patent.

Our competitive position is also dependent upon unpatented technology and trade secrets, which may be difficult to protect. Others may independently develop substantially equivalent proprietary information and techniques that would legally circumvent our intellectual property rights. Currently, we have not registered any potential trademarks and we may not be able to obtain registration for such trademarks.

THE USE OF OUR TECHNOLOGIES COULD POTENTIALLY CONFLICT WITH THE RIGHTS OF OTHERS.

Our competitors, or others, may have or may acquire patent rights that they could enforce against us. If our products conflict with patent rights of others, third parties could bring legal actions against us or our suppliers or customers, claiming damages and seeking to enjoin manufacturing and marketing of the affected products. If these legal actions are successful, in addition to any

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potential liability for damages, we could be required to alter our products or obtain a license in order to continue to manufacture or market the affected products. We may not prevail in any legal action and a required license under the patent may not be available on acceptable terms or at all. The cost to us of any litigation or other proceeding relating to intellectual property rights, even if resolved in our favor, could be substantial.

WE MUST EXPAND OUR OPERATIONS TO COMMERCIALIZE OUR PRODUCTS, WHICH WE MAY NOT BE ABLE TO DO.

We will need to expand and effectively manage our operations and facilities to successfully pursue and complete our commercialization efforts. We will need to add personnel, including management, and expand our capabilities, which may strain our existing managerial, operational, financial and other resources. To compete effectively and manage our growth, we must train, manage and motivate a substantially larger employee base, accurately forecast demand for our products and implement operational, financial and management information systems. In the event that we fail to expand or manage our growth effectively or if we cannot recruit qualified employees, our commercialization efforts could be curtailed or delayed.

WE MAY ACQUIRE OTHER BUSINESSES OR TECHNOLOGIES, AND WE MAY NOT BE ABLE TO INTEGRATE AND OPERATE THE ACQUISITIONS.

From time to time, we have considered the acquisition of other businesses or other technologies, and we continue to consider such acquisitions as opportunities arise. As discussed above under "Recent Events," we acquired



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Evenstar, Inc. in March 2004. Some of these businesses and technologies, including Evenstar, are directly related to our business and others are not. If we make any such acquisitions, we may not be able to efficiently combine our operations with those of the businesses or technologies we acquire without encountering difficulties. These difficulties could result from a variety of issues, including incompatible operating practices, corporate cultures, product lines, or technologies. As a result, we may have difficulties in integrating, managing and operating the acquired businesses and technologies.

FUTURE SALES OF COMMON STOCK COULD DEPRESS THE PRICE OF OUR COMMON STOCK.

Future sales of substantial amounts of our common stock pursuant to Rule 144 under the Securities Act of 1933 or otherwise could have a material adverse impact on the market price for the common stock at the time. On March 16, 2004, there were approximately 16,000,000 outstanding shares of our common stock held by stockholders that are deemed "restricted securities" as defined by Rule 144 under the Securities Act. Under certain circumstances, these shares may be sold without registration pursuant to the provisions of Rule 144. In general, under Rule 144, a person (or persons whose shares are aggregated) who has held the stock for one year may, under certain circumstances, sell within any three-month period a number of restricted securities which does not exceed the greater of 1% of the shares outstanding or the average weekly trading volume during the four calendar weeks preceding the notice of sale required by Rule 144. In addition, Rule 144 permits, under certain circumstances, the sale of restricted securities without any quantity limitations by a non-affiliate who has held the security for two years. Any sales of shares by stockholders pursuant to Rule 144 may have a depressive effect on the price of our common stock.

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WE MAY HAVE LIABILITY FOR PRIOR ISSUANCES OF OUR STOCK.

From May 1, 2002 through May 10, 2004, warrant holders exercised 2,545,800 of our Class A Warrants and 22,600 of our Class B Warrants for a total of 2,568,400 shares of common stock. The warrant holders paid an aggregate of \$1,340,700 for these exercises. From May 1, 2002 through May 10, 2004, the registration statement that we filed with the U.S. Securities and Exchange Commission to register the common stock issuable upon exercise of these warrants may not have been "current" because the registration statement had not been amended to include our most recent audited financial statements. As a result, the former warrant holders may be entitled to demand a rescission of their previous exercises of common stock. We intend to make a rescission offer to all warrant holders who exercised warrants during the period from May 1, 2002 through May 10, 2004. Once made, the rescission offer is expected to remain open for 30 days. The rescission offer would require us to repurchase the shares of common stock issued upon exercise of the warrants at their original exercise price, \$.50 for the Class A Warrants and \$3.00 for the Class B Warrants, at each warrant holder's option. If all warrant holders accepted the rescission offer, we would be required to pay \$1,340,700 plus interest, which amount would be reduced to the extent of the proceeds from any sales of the underlying common stock by the former warrant holders. Acceptance of the rescission offer by all former warrant holders could have a material adverse effect. The current market price is over the \$.50 exercise price of the Class A Warrants, and if that remains true, we would expect no former holders of Class A Warrants to accept the rescission offer. The current market price is below the \$3.00 exercise price of the Class B Warrants. Only 22,600 Class B Warrants were exercised during the

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rescission offer period, making our potential rescission liability to the former Class B Warrant holders equal to \$67,800 plus interest, which amount would be reduced to the extent of any sales of the underlying common stock by the former warrant holders.

### FORWARD-LOOKING STATEMENTS

This registration statement, as well as our other reports filed with the SEC and our press releases and other communications, contain forward-looking statements made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Forward-looking statements include all statements regarding our expected financial position, results of operations, cash flows, dividends, financing plans, strategy, budgets, capital and other expenditures, competitive positions, growth opportunities, benefits from new technology, plans and objectives of management, and markets for stock. These forward-looking statements are based largely on our expectations and, like any other business, are subject to a number of risks and uncertainties, many of which are beyond our control. The risks include those stated in the "Risk Factors" section of this registration statement and economic, competitive and other factors affecting our operations, markets, products and services, expansion strategies and other factors discussed elsewhere in this registration statement and the other documents we have filed with the Securities and Exchange Commission. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this registration statement will in fact prove accurate, and our actual results may differ materially from the forward-looking statements.

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### MARKET FOR OUR SHARES

#### MARKET INFORMATION

Our common stock is traded on the NASDAQ over-the-counter ("OTC") Bulletin Board under the symbol "SITI.OB" and our corporate name is SLS International, Inc. On June 10, 2004, the last reported sale price for our common stock as reported on the Nasdaq Over-The-Counter Bulletin Board was \$2.86 per share. The following table sets forth the range of high and low bid closing quotations for our common stock on the over-the-counter market for each quarter within the last two fiscal years. The over-the-counter quotes reflect inter-dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions.

PERIOD	BID PRICES	
	LOW	HIGH
Quarter Ended March 31, 2004	\$2.65	\$3.46
Quarter Ended December 31, 2003	1.37	3.92
Quarter Ended September 30, 2003	0.75	1.85
Quarter Ended June 30, 2003	0.19	0.60
Quarter Ended March 31, 2003	0.20	0.45

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Quarter Ended December 31, 2002	0.16	0.51
Quarter Ended September 30, 2002	0.23	0.59
Quarter Ended June 30, 2002	0.20	0.84
Quarter Ended March 31, 2002	0.36	0.84

### HOLDERS

On March 16, 2004 there were approximately 118 holders of record of our common stock, based on information furnished by our transfer agent. Shares of our common stock are also held in "street" name and may, therefore, be held by numerous beneficial owners.

### DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any payment of dividends in the future will be at the discretion of our board of directors and will be dependent upon our earnings, financial condition, capital requirements and other factors deemed relevant by our board of directors.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

We manufacture premium-quality loudspeakers and sell them through our dealer networks. The speakers use our proprietary ribbon-driver technology and are generally recognized in the industry as high-quality systems. We sell a Professional Line of loudspeakers, a Commercial Line of loudspeakers, Home Theatre systems, a line for recording and broadcast studios, a line for contractor installations and touring companies, and a line of in-wall, in-ceiling and outdoor loudspeakers.

From the early 1970's through 1999 we derived substantially all of our revenue from marketing, renting, selling and installing sound and lighting systems. In June 1999, due to the favorable customer acceptance of our custom-designed loudspeaker systems, we ceased these historical operations and began focusing all efforts towards becoming a loudspeaker manufacturer and selling to dealers and contractors on a wholesale basis. As a result, we have been essentially in a development stage, as we are bringing to market products that we introduced in 2000 and 2001 and designing and bringing to market additional products.

In June 2000, we asked dealers and distributors to sell our Professional Line of products. These dealers and distributors started to form our current network of approximately 50 dealers and 7 foreign distributors and we began shipping to them. However, most of the Professional Line required new ribbon drivers that we completed and implemented into the product line in early 2001.

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In September 2000, we introduced our Home Theatre systems, and sales for those systems began immediately. From September through December 2000, we added 20 new Home Theatre dealers in the US and began marketing efforts to establish distributors and dealers outside the US.

In June 2001, we introduced a Commercial Line of loudspeakers that utilize our PRD500 Ribbon Driver and, in September 2001, we finished the development of our PRD1000 Ribbon Driver and began implementing it into our Professional Line. Our PRD drivers, which we manufacture, upgraded the previous drivers that we purchased from third-party manufacturers; and our cost is approximately one-sixth of the price that we had been paying for the previous drivers.

SLS International, Inc. was formed on July 25, 2000 and had no previous operations. On the same date, this corporation merged with Sound and Lighting Specialist Inc., its sole shareholder, and SLS International, Inc. was the surviving corporation. All of the financial information reported for periods prior to the merger are the results of operations of Sound and Lighting Specialist, Inc. All of the operating activity reported for periods after the merger are the results of operations of SLS International, Inc. The information in this section should be read together with the financial statements, the accompanying notes to the financial statements and other sections included in this report.

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YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002

### RESULTS OF OPERATIONS

Year ended December 31, 2003 as compared to the year ended December 31, 2002. For the year ended December 31, 2003, revenue increased to \$968,245 from \$790,582 in 2002, as a result of the further roll-out of our product line and customer acceptance of our products. Gross profit percentage increased to 38% in 2003 compared to 32% in 2002, primarily as a result of decreased cost of goods sold for larger quantity purchases, higher margins for certain new products and decreased cost of goods sold from partial outsourcing of certain products.

General and administrative expenses for 2003 increased to \$4,492,238 from \$2,468,565 in 2002, primarily as a result of increased expenses for consulting and investor relation services. In 2003, we spent an aggregate of \$3,104,153 for such services, \$1,799,248 of which was non-cash charges related to the issuance of stock or stock options for such services. In 2002, we spent an aggregate of \$1,303,770 for such services, \$1,074,229 of which was non-cash charges related to the issuance of stock for such services. Services rendered included promotional services, assistance with product promotion and distribution, business development services, marketing services, merger and acquisition services, public relations, investor relations, and capital raising. Excluding such consulting and investor relations services, our general and administrative expenses increased by \$223,290 in 2003. This increase is attributed to increases in advertising expenses, accounting and legal expenses, property lease expenses, equipment lease expenses, and additional employees, partially offset by a decrease in bad debt expense.

In 2003, primarily as a result of the increased general and

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administrative expense, which was partially offset by increased revenue and an improved gross profit percentage, we reported an increased net loss of \$3,979,341 as compared to a net loss of \$2,242,325 in 2002.

Other income (expense) increased to \$145,864 in other income in 2003, compared to other expense of \$27,099 in 2002, due primarily to write-offs of accounts payable, a change in reserves for doubtful accounts, and income received from accounts receivable that were previously written off.

Year ended December 31, 2002 as compared to the year ended December 31, 2001. For the year ended December 31, 2002, revenue increased to \$790,582 from \$353,797 in 2001, as a result of the further roll-out of our product line and customer acceptance of our products. Gross profit percentage increased to 32% in 2002 compared to 19% in 2001, primarily as a result of our conversion to in-house manufacturing of our ribbon drivers from our previous outsourcing of such components. In 2002, despite the increased revenue and improved gross profit percentage, we reported a net loss of \$2,242,325 as compared to a net loss of \$1,040,174 in 2001. The greater net loss was primarily the result of increased general and administrative expenses, as discussed below.

General and administrative expenses for 2002 increased to \$2,468,565 from \$1,068,335 in 2001, primarily as a result of the write-off of \$203,831 of bad debt expense (compared to \$4,000 in 2001) and \$1,074,229 of non-cash expenses amortized in 2002 reflecting a portion of the fair value of stock and options issued under consulting agreements entered into during 2001 and 2002. A total of \$1,599,213 in expenses were accrued under these consulting agreements, and the unamortized portion (\$524,984) of such expenses will be amortized in future periods. Other factors causing the increase in general and administrative

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expenses include a new employee handling our development of a transducer, a new controller for our financial operations, a new national sales manager, increased trade show participation to promote our products, and cash expenses for consultants targeted toward increased exposure and relations with top musical artists. Also, during the 2002 third quarter, we increased the size of our leased facility, thereby increasing our monthly lease costs, which will increase our capacity to satisfy the expected growth in revenue. Partially offsetting these increases was the elimination of legal, accounting, consulting and other costs incurred as a result of our 2001 public offering.

Interest expense decreased to \$33,306 in 2002 as compared to \$46,011 in 2001, due to decreased borrowings.

### FINANCIAL CONDITION

On December 31, 2003, our current assets exceeded current liabilities by \$1,945,227 as compared to December 31, 2002 when our current liabilities exceeded current assets by \$588,486. On December 31, 2003, net assets exceeded total liabilities by \$2,239,489, compared to December 31, 2002 when total liabilities exceeded net assets on by \$562,262. The improvement in working capital was due primarily to increases in cash resulting from the closing of our private placement in July 2003, which is further discussed below. We used part of this cash to increase our inventory, purchase equipment and vehicles, make leasehold improvements, and reduce accounts payable and notes payable, all of which resulted in an improved working capital position.

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We have experienced operating losses and negative cash flows from operating activities in all recent years. The losses have been incurred due to the development time and costs in bringing our products through engineering and to the marketplace. In addition we have not paid notes payable and accounts payable on due dates. The report of our accountants contains an explanatory paragraph indicating that these factors raise substantial doubt about our ability to continue as a going concern.

In 2003 and 2002, we entered into consulting agreements that required us to issue an aggregate of 3,215,452 shares of common stock, options to purchase 100,000 shares of Class A preferred stock (each such share of preferred stock converts into 10 shares of common stock), and options to purchase 500,000 shares of our common stock. Total expenses under such agreements are \$2,512,249, \$1,731,045 of which has been reflected as amortized expenses in 2003 and 2002, and the remainder of which is to be amortized in subsequent periods over the respective terms of such agreements. The difference between such total expenses and the amount amortized is reflected as unamortized cost of stock issued for services on the balance sheet. We also recorded \$3,000 of cash and \$27,000 of notes receivable received from such consultants. The notes receivable were then written off as bad debt expense in the quarter ended March 31, 2002, \$18,000 of which was collected in 2003 and recorded as other income.

Compared to year-end 2002, we are currently experiencing a significantly improved cash position, as we had \$1,482,786 in cash on December 31, 2003. Nevertheless, in order to continue operations, we remain dependent on raising additional funds and have embarked upon another private placement of a new class of preferred stock in the beginning of 2004 to raise capital.

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In 2003 we privately sold preferred stock for a total of \$3,670,750 in a private placement that closed in July 2003. The private placement commenced in 2001 and raised a total of \$4,713,250. We received funds from time to time upon sale of the preferred stock and placed the proceeds into our working capital upon receipt. Due to market conditions, sales of preferred stock in the private placement were slower than expected throughout 2001, 2002 and early 2003. Then, in July of 2003, we raised the final \$3,299,150 from sales of preferred stock and were able to close the offering.

In addition, we have outstanding warrants, which, upon exercise, provided additional funding of \$1,032,800 in 2003. The shares of common stock were issued pursuant to a registration statement declared effective by the U.S. Securities and Exchange Commission in 2001, registration statement number 333-43770. However, from May 1, 2002 through May 10, 2004, such registration statement may not have been "current" because the registration statement had not been amended to include our most recent audited financial statements. As a result, the former warrant holders may be entitled to demand a rescission of their previous exercises of common stock. We intend to make a rescission offer, in the second quarter of 2004, to all warrant holders who exercised warrants during the period from May 1, 2002 through May 10, 2004. Once made, the rescission offer is expected to remain open for 30 days. The rescission offer would require us to repurchase the shares of common stock issued upon exercise of the warrants at their original exercise price, \$.50 for the Class A warrants and \$3.00 for the Class B warrants, at each warrant holder's option. If all warrant holders accepted the rescission offer, we would be required to pay \$1,340,700 plus interest, which amount would be reduced to the extent of the

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proceeds from any sales of the underlying common stock by the former warrant holders. Acceptance of the rescission offer by all former warrant holders could have a material adverse effect. The current market price is over the \$.50 exercise price of the Class A warrants, and if that remains true, we would expect no former holders of Class A Warrants to accept the rescission offer. The current market price is below the \$3.00 exercise price of the Class B warrants. Only 22,600 Class B warrants were exercised during the rescission offer period, making our potential rescission liability to the former Class B warrant holders equal to \$67,800 plus interest, which amount would be reduced to the extent of any sales of the underlying common stock by the former warrant holders.

Accounts receivable increased to \$277,665 on December 31, 2003, compared to \$165,024 on December 31, 2002, due to a decrease in the allowance for doubtful accounts and increased sales.

Net fixed assets increased to \$320,193 on December 31, 2003, from \$26,224 a year earlier, due to leasehold improvements for an additional 7,500 square feet of space leased in July 2003; new equipment, including a phone system and two servers, as well as upgrades of our computer network; and a new vehicle for use by our CEO in the performance of his duties, including sales, marketing and investor relations duties.

Notes payable decreased to \$28,946 on December 31, 2003, compared to \$414,720 on December 31, 2002, as we repaid most of the outstanding notes payable with the proceeds from our private placement that closed in July 2003.

There is intense competition in the speaker business with other companies that are much larger and national in scope and have greater financial resources than we have. We will require additional capital to continue our growth in the wholesale speaker market. We are relying upon our ability to obtain the necessary financing through the issuance of equity and upon our relationships with our lenders to sustain our viability.

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In the past, we have been able to privately borrow money from individuals by the issuance of notes and have sold our stock to raise capital. We intend to continue to do so as needed. However, we cannot be certain that we will continue to be able to successfully obtain such financing. If we fail to do so, we may be unable to continue as a viable business.

In March 2004, we commenced an offering of up to 1,000,000 shares of Series B preferred stock at \$20.00 per share. Each share is convertible into ten shares of our common stock six months after purchase. Prior to conversion, the shares have no voting rights. Attached to each preferred share are ten of our class C warrants. Each class C warrant has a term of three years and provides the right to purchase one share of our common stock at \$7.00 per share. The class C warrants are immediately exercisable and detachable from the preferred share. If the average closing market price for our common stock is equal to or greater than \$10.50 per share for a period of 30 days, then we are entitled to repurchase such warrants, with 30 days notice, at a price of \$.001 per warrant. Through April 19, 2004, 167,700 shares of the preferred stock, series B, have been sold for \$3,354,000.

QUARTER ENDED MARCH 31, 2004

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### RESULTS OF OPERATIONS

Quarter ended March 31, 2004 as compared to the quarter ended March 31, 2003. For the quarter ended March 31, 2004, revenue increased to \$420,916 from \$104,777 in the 2003 period, a 302% increase, resulting primarily from the positive results of a new marketing program we started in January 2004 and our increased production capabilities resulting from a facilities expansion completed in December 2003. Our gross profit percentage decreased to approximately 40% in the 2004 period from approximately 45% in the 2003 period, primarily as a result of new personnel that were in training and sales of several large systems at a high promotional discount.

General and administrative expenses for the 2004 first quarter increased to \$2,956,689 from \$502,149 in the 2003 first quarter, an increase of \$2,454,540. The increase resulted primarily from a non-cash charge of \$1,148,502 for the impairment of goodwill (as further described in Note 7 to the financial statements); \$1,015,943 in consulting and investor relation services expenses (as further described in Note 6 to the financial statements), \$654,343 of which was non-cash charges for the amortization of stock and options issued under consulting agreements; and \$109,165 in acquisitions expense (as further describe in Note 7 to the financial statements).

Due to the increase in general and administrative expenses, partially offset by the revenue increase, our net loss increased to \$2,783,818 in the first quarter of 2004 as compared to a net loss of \$454,445 in the comparable quarter of 2003.

Other income (expense) increased to a net other income of \$4,871 in the 2004 first quarter as compared to net other income of \$363 in the 2003 first quarter, primarily due to interest on cash retained upon completion of our preferred stock private placement in July 2003.

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### FINANCIAL CONDITION

On March 31, 2004, our current assets exceeded current liabilities by \$3,435,620, compared to an excess of current assets over current liabilities of \$1,945,227, on December 31, 2003. Total assets exceeded total liabilities by \$3,786,615, compared to an excess of total liabilities over total assets of \$2,249,489 on December 31, 2003. The increased working capital was primarily due to the sale of 143,500 shares of Series B Preferred Stock for net proceeds of \$2,561,250 in the first quarter of 2004. In addition to funding operations, the proceeds from such sales of stock allowed us to increase cash by \$1,209,656, increase inventory by \$258,068, increase net fixed assets by \$45,920, and decrease accounts payable by \$53,483. On March 31, 2004, we had a backlog of orders of approximately \$50,000.

We have experienced operating losses and negative cash flows from operating activities in all recent years. The losses have been incurred due to the development time and costs in bringing our products through engineering and to the marketplace. The report of our accountants contains an explanatory paragraph indicating that these factors raise substantial doubt about our ability to continue as a going concern.

In order to continue operations, we have been dependent on raising



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additional funds, and as discussed above, we commenced a new private placement of Series B Preferred Stock in the first quarter of 2004 to raise capital. Each share is convertible into ten shares of our common stock six months after purchase. Prior to conversion, the shares have no voting rights. Attached to each preferred share are ten of our class C warrants. Each class C warrant has a term of three years and provides the right to purchase one share of our common stock at \$7.00 per share. The class C warrants are immediately exercisable and detachable from the preferred share. If the average closing market price for our common stock is equal to or greater than \$10.50 per share for a period of 30 days, then we are entitled to repurchase such warrants, with 30 days notice, at a price of \$.001 per warrant.

In the first quarter of 2004, we also received an aggregate of \$110,600 in cash in payment of the exercise price for the exercise of outstanding warrants. The shares of common stock were issued pursuant to a registration statement declared effective by the U.S. Securities and Exchange Commission in 2001, registration statement number 333-43770. However, from May 1, 2002 through May 10, 2004, such registration statement may not have been "current" because the registration statement had not been amended to include our most recent audited financial statements. As a result, the former warrant holders may be entitled to demand a rescission of their previous exercises of common stock. We intend to make a rescission offer, in the second quarter of 2004, to all warrant holders who exercised warrants during the period from May 1, 2002 through May 10, 2004 (the date that an amendment to the registration statement was declared effective, making the registration statement "current"). Once made, the rescission offer is expected to remain open for 30 days. The rescission offer would require us to repurchase the shares of common stock issued upon exercise of the warrants at their original exercise price, \$.50 for the Class A warrants and \$3.00 for the Class B warrants, at each warrant holder's option. If all warrant holders accepted the rescission offer, we would be required to pay \$1,340,700 plus interest, which amount would be reduced to the extent of the proceeds from any sales of the underlying common stock by the former warrant holders. Acceptance of the rescission offer by all former warrant holders could have a material adverse effect. The current market price is over the \$.50 exercise price of the Class A warrants, and if that remains true, we would

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expect no former holders of Class A Warrants to accept the rescission offer. The current market price is below the \$3.00 exercise price of the Class B warrants. Only 22,600 Class B warrants were exercised during the rescission offer period, making our potential rescission liability to the former Class B warrant holders equal to \$67,800 plus interest, which amount would be reduced to the extent of any sales of the underlying common stock by the former warrant holders.

In the 2004 first quarter, we entered into an agreement with the owners of SA Sound B.V. and SA Sound USA, Inc. giving us an option to acquire said companies at any time prior to February 27, 2004 for a purchase price of 370,000 euros, approximately \$467,000. We paid approximately \$63,000 for this option. The option agreement entitled us to a refund of the option price if the due diligence performed disclosed any material adverse facts. After completion of the due diligence, we determined not to exercise the option to purchase and we have asserted a right to a refund of the option price. The sellers have challenged the return of the option fee.

On March 12, 2004, we acquired Evenstar, Inc., by a merger with and into our newly formed, wholly owned subsidiary, Evenstar Mergersub, Inc. Evenstar is the owner of one issued patent and a second patent that has been

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granted and is expected to be issued in the near future. The patents are for Evenstar's digital amplification technology, which provides for substantially reduced production costs compared to amplifiers of comparable quality. In consideration for Evenstar, we paid \$300,000 in cash and issued 300,000 shares of common stock to the stockholders of Evenstar. In connection with the acquisition, we hired the former president of Evenstar as the head of our new electronics division, with responsibility for designing and developing new electronics products. Our ability to integrate Evenstar into our operations will have a substantial effect on our future performance.

There is intense competition in the speaker business with other companies that are much larger and national in scope and have greater financial resources than we have. We will require additional capital to continue our growth in the wholesale speaker market. We are relying upon our ability to obtain the necessary financing through the issuance of equity and upon our relationships with our lenders to sustain our viability. On March 31, 2004, we had \$2,692,442 in cash. We believe this cash is more than sufficient to fund our planned operations for at least the next twelve months.

In the past, we have been able to privately borrow money from individuals by the issuance of notes, and we have been able to raise money by the issuance of preferred stock and common stock. We intend to continue to do so as needed. However, we cannot be certain that we will continue to be able to successfully obtain such financing. If we fail to do so, we may be unable to continue as a viable business.

### USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by Steerpike. We will receive no proceeds from the sale of shares of common stock in this offering. However, we may receive up to \$275,000 in proceeds from the selling stockholders' exercise of the options pursuant to which the shares registered hereby are issuable. Any proceeds received upon the selling stockholders' exercise of the options will be used for working capital and general corporate purposes.

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### BUSINESS

#### BACKGROUND

We manufacture premium-quality loudspeakers and sell them through our dealer networks. The speakers use our proprietary ribbon-driver technology and are generally recognized in the industry as high-quality systems. We sell a Professional Line of loudspeakers, a Commercial Line of loudspeakers, Home Theatre systems, a line for recording and broadcast studios, a line for contractor installations and touring companies, and a line of in-wall, in-ceiling and outdoor loudspeakers.

From the early 1970's through 1999 we derived substantially all of our revenue from marketing, renting, selling and installing sound and lighting systems under the name Sound and Lighting Specialist Inc. In June 1999, due to the favorable customer acceptance of our custom-designed loudspeaker systems, we ceased these historical operations and began focusing all efforts towards becoming a loudspeaker manufacturer and selling to dealers and contractors on a wholesale basis. As a result, we have been essentially in a development stage,

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as we are bringing to market products that we introduced in 2000 and 2001 and designing and bringing to market additional products.

In June 2000, we asked dealers and distributors to sell our Professional Line of products. These dealers and distributors started to form our current network of approximately 50 dealers and 7 foreign distributors and we began shipping to them. However, most of the Professional Line required new ribbon drivers that we completed and implemented into the product line in early 2001.

In September 2000, we introduced our Home Theatre systems, and sales for those systems began immediately. From September through December 2000, we added 20 new Home Theatre dealers in the US and began marketing efforts to establish distributors and dealers outside the US.

In June 2001, we introduced a Commercial Line of loudspeakers that use our PRD500 Ribbon Driver and, in September 2001, we finished the development of our PRD1000 Ribbon Driver and began implementing it into our Professional Line. Our PRD drivers, which we manufacture, upgraded the previous drivers that we purchased from third-party manufacturers; and our cost is approximately one-sixth of the price that we had been paying for the previous drivers.

SLS International, Inc. was formed on July 25, 2000 and had no previous operations. On the same date, this corporation merged with Sound and Lighting Specialist Inc., its sole shareholder, and SLS International, Inc. was the surviving corporation. The information in this section should be read together with the financial statements, the accompanying notes to the financial statements and other sections included in this report.

### RECENT EVENTS

In March 2004, we completed a merger of Evenstar, Inc. into a newly formed, wholly owned subsidiary. As a result of the merger, we now own, through the subsidiary, certain technologies and proprietary rights, including those embodied in one issued patent and one patent application. The technologies

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consist of digital amplification technologies that we intend to use in our loudspeakers and in stereo amplifiers in a product line complementary to our loudspeakers. We intend to sell these products through our current distribution channels, as well as through relationships that we expect to develop with mass merchandisers and real estate developers. In exchange for such technologies, we paid \$300,000 in cash and issued 300,000 shares of our common stock to the seller. Simultaneously with the acquisition, we hired Joel Butler as director of our electronics division.

### DEVELOPMENT

Initially, we engaged in the direct sale and installation of sound systems for various customers and rented lighting and sound equipment. The

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business evolved into the business of designing cabinets for loudspeaker systems for sale and installation. We manufactured the cabinets and purchased the components, which consisted of compression drivers and woofers from independent manufacturers, and sold and installed the systems for our customers. The compression drivers make the high frequency or treble sounds and the woofers make the low frequency or bass sounds. During 1994, we expanded our line of loudspeaker systems to include speakers that used ribbon drivers instead of compression drivers. At that time, we purchased the ribbon drivers from an independent manufacturer.

As we developed our ribbon driver line of loudspeakers we relied on our Tef 20 computer acoustic measurement system to analyze and measure sound waves. This system is the industry standard for loudspeaker designing and is used by most of the major loudspeaker manufacturers in the design and manufacture of loudspeaker systems. Our Tef 20 system indicated that the ribbon driver systems that we were designing were superior in several ways to the compression driver systems that we previously used. The ribbon driver system that we were designing had a smoother frequency response. The level of mid-range sound and treble sound that the ribbon driver systems were producing was more even and therefore the loudspeaker reproduced whatever sound it received in a more natural manner. Also, the ribbon driver did not produce the same level of distortion when played at higher frequency levels, as compared to the compression driver. This resulted in a positive reaction from our customers to the quality of sound, and as a result we decided to change our overall strategy. We determined to focus our efforts solely on the manufacture and sale of lines of ribbon driver speaker systems. We sell our speaker systems in six product lines:

- o The Professional Contractor Speaker System, a more expensive "professional" line
- o The Universal Series Speaker System, a less expensive "commercial" line
- o The Home Theatre Speaker Systems
- o The Studio Series, for recording and broadcast studios
- o The Ribbon Line Array (RLA) Series, for contractor installations and touring companies
- o The Design Series, consisting of in-wall, in-ceiling and outdoor speakers for home theater and commercial installations

The market for the ribbon driver product line is new and growing. Our future success is uncertain because the loudspeaker market is experiencing rapid technological advances, changing customer needs and evolving industry standards.

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To realize our expectations regarding our operating results, we will depend on:

- o Market acceptance of our ribbon driver products;
- o Our ability to compete in quality, price and customer service for our products;
- o Our ability to develop, in a timely manner, new products and services that keep pace with developments in technology;
- o Our ability to meet changing customer requirements; and
- o Our ability to enhance our current products and services and deliver them efficiently through appropriate distribution channels.

TECHNOLOGY

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The function of loudspeakers is to increase the volume of sound in order to enable the sound to be heard by many people occupying a large area. For many years, the loudspeaker industry used certain types of components to increase the volume of sound. The technology originally permitted only the types of components that required low electrical power in order to achieve high volume sound. In the past, loudspeakers consisted in part of a component called the compression driver. This device generally is used to reproduce the mid-range and high frequencies of sound. Early compression drivers consisted of a diaphragm made of a linen-based manmade resin material that is enclosed in a chamber. This diaphragm was generally formed as a partial sphere, similar to a ball that has been cut in half. The edges of the diaphragm were then wound many times with a fine electrical wire called a voice coil. Electrical current from an amplifier is sent through the wire and the diaphragm vibrates to produce the sound wave. However, in the compression driver, the diaphragm is enclosed in a chamber with the sound exiting out of a relatively small hole that increases the velocity of the sound. This is similar to forcing air or water through a small hole to increase its velocity. The disadvantage of the compression driver is that before the sound waves are forced through the small hole they are first bounced around inside of the chamber and become distorted and tend to produce a certain amount of listening fatigue for audiences. Today the compression drivers use a diaphragm made from aluminum and titanium and can produce the same high volume but with higher frequency sounds. Although today's compression drivers are superior to those of the past due to the new materials, the negative aspects still exist to a degree because of the nature of the design of the compression driver.

Originally the diaphragm of the ribbon driver consisted of a material made from mylar plastic. This plastic component produced a better quality sound but was not able to handle the amount of electrical current needed to produce a high level of sound. This caused the component to melt and thereby cease to function. In addition, the ribbon drivers required relatively large, cumbersome and heavy magnet assemblies using ceramic magnets. Over the years the ribbon driver was developed using higher-powered magnets and materials that could withstand higher temperatures.

The ribbon driver works in a different manner than the compression driver. The diaphragm of the ribbon driver is a flat piece of mylar plastic or in the case of SLS ribbon drivers, a high temperature Kapton plastic. These materials are considerably thinner and lighter than the linen or even the aluminum or titanium diaphragms of the compression drivers. The ribbon diaphragm is laminated on one side with a thin coating of aluminum. This aluminum is then

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chemically etched to leave wire-like traces of aluminum that act as a voice coil, vibrating the diaphragm when current is applied. The diaphragm of the ribbon driver is not in a chamber and is open and visible to the air. The sound waves are not restricted and therefore they do not have the distorted properties of the compression driver. Because the diaphragm of the ribbon driver is so thin and light it reacts very quickly to the electrical signal and does not introduce new or resonated sounds created by the material of the diaphragm itself. This enables the ribbon driver to produce a much purer reproduction of the sound source without adding any tones of its own.

In 1994, we purchased several ribbon drivers from a non-affiliated European company to determine if they could be used in our loudspeaker systems. Prior to this, we were only using compression drivers. We immediately noticed

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the difference in the quality of sound and began to install the ribbon drivers in some of our own smaller speaker cabinets that did not require high electrical power. Due to the positive response from our customers we decided to develop a completely new product line using the ribbon drivers that we purchased from the European manufacturers.

In February 2000, we retained Igor Levitsky, an electro-acoustics engineer to develop a new technology ribbon driver for us. We requested that he develop two different-sized ribbon drivers and we paid a fixed fee for his work. We also agreed to pay him a royalty of \$2,000 per year for an indefinite period of time. In April 2001, Mr. Levitsky became our employee and waived his royalty. Research and development expense was \$17,568 in 2001 and \$22,095 in 2002. The cost of such research and development is not borne directly by our customers.

The ribbon driver that we have developed uses new lightweight high-powered magnets and plastics that can withstand high temperatures. This enables the speaker system to have increased power-handling ability and higher sound volume with substantial reliability and clarity. We have completed development of our own proprietary ribbon driver, model PRD 500, a 5-inch version of the ribbon driver. Since 2001, we have directly manufactured models PRD 500 and PRD 1000, for use in our Home Theatre line, Universal Series Commercial line, our Studio Series, our Ribbon Line Array (RLA) Series and our Professional line of loudspeakers. Sale of the Commercial line of loudspeakers with direct-manufactured ribbon drivers began in June 2001, and sales of the Professional line of products with direct-manufactured ribbon drivers began in September 2001. The Studio Series, the RLA Series and the Design Series were all developed in 2002 and 2003 and use our ribbon drivers or ribbon drivers that we purchase from B&G Corporation. This direct manufacture of ribbon drivers substantially reduces our product cost, and it also provides improved performance for our loudspeaker systems. We also expect to use the PRD 1000 in a proposed Cinema Line of loudspeakers for movie houses. We are displaying for the first time at the annual Show West Cinema trade show in March 2004, and through March 2004, we have several cinema systems specified for installations in cinemas in the latter part of 2004.

### PRODUCTS

Previously, when we were involved in selling and installing our products for end-users, our product line consisted of twelve models of Professional Contractor speaker systems. As a result of the change in operations to a wholesale business, selling to distributors, we have increased our product lines. In addition to the models previously manufactured, we added two product lines, consisting of twelve new models, and increased the number of models we manufacture under our Professional Contractor System.

Our Professional Contractor Speaker System line now consists of eighteen models of speaker systems, each model consisting of a speaker cabinet and components of woofers that provide the bass sounds and ribbon drivers that provide the treble sounds. This line, the cabinets of which we generally manufacture, is usually sold to large contractors and is installed for churches, theatres, school auditoriums, casinos, night clubs and touring production companies. Although we now manufacture our own ribbon drivers, the woofers are manufactured to our specifications by non-affiliated manufacturers.

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Our Commercial line, the Universal Series Speaker System, consists of lower-cost speakers that are designed to be sold by music stores for orchestras, disc jockeys and the less expensive commercial market. There are twelve models of different size, with less expensive components that produce varying sound levels and area coverage capabilities. These models are equal in quality to, but do not produce the sound levels of, our Professional Contractor Speaker System Line.

We recently developed a new line of loudspeakers for the home theatre market. We intend to direct a substantial effort to capture a greater share of the home theatre market. Our Home Theatre Loudspeaker System consists of four models that use the smallest unit of our Professional Contractor Loudspeaker System as their basis. We manufacture the cabinetry and the ribbon drivers for this system, our PRD 500. These systems are designed for the boardroom and for the home. The home theatre market requires equipment that uses five or more speakers placed around a room. This configuration provides the listener with "surround sound" similar to a movie theatre experience. Almost all current movies are now produced in surround sound, which uses at least five speakers plus a sub-woofer system.

Due to the unique design of our ribbon drivers we have developed a new series of speaker systems for the contractor installation and touring sound reinforcement markets. These products are part of our new RLA Series. This line has been receiving high acclaim in the industry and we have received orders for this product line in many new prestigious installations.

Our recent efforts in home theater marketing have led us to market and offer products for the home theater and commercial in-wall and in-ceiling speaker segment of our industry. These products are called our Design Series and are being specified in many future installations.

We have developed two new models of speaker systems for the recording studio and broadcast markets and have added them to our existing on-studio speaker that was originally part of our Professional line. We are now designating these three different speakers as our Studio Series.

Revenue from our ribbon driver product line is expected to account for a material portion of our revenue for the foreseeable future. Our financial performance will depend on market acceptance of our ribbon driver technology and products. The sound system industry continually introduces technological developments, frequently announces new products, and has evolving industry standards and changing customer requirements. As a result, if our ribbon driver technology and product line do not rapidly achieve sufficient market acceptance, we may not be able to achieve expected revenues or profits.

We re-packaged certain models of our Professional Contractor Sound Systems for the cinema and movie theatre market by simplifying the cabinetry. In a typical movie house, the speakers are usually not displayed in view of the public, which allows for simplified cabinetry. The new cabinetry is designed to be less costly, as are the other components, which we expect to provide our representatives with a cost advantage in marketing our system to cinema owners. At present, a total of ten models have been repackaged for this line. They were introduced to cinema companies by means of personal demonstrations and are being shown to the entire cinema market in March 2004 at the annual Show West Cinema trade shows.

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We have developed a new less-expensive 5.1 Home Theater system, which is now in production. It is in stock and being sold through our existing and new home theater dealers.

### MANUFACTURING AND SOURCING

We generally design and manufacture our own cabinets for our product lines, and on occasion contract certain models manufactured by independent, established, local and other woodcrafters. These manufacturers construct the cabinetry to our specifications. Our ribbon drivers are either directly manufactured or purchased from a non-affiliated manufacturer, B&G Corporation. The principal suppliers of our woofers are Belisle Acoustics, Eminence, PHL and Seas Speaker Component Manufacturers. The manufacture of our own ribbon drivers has resulted in a meaningful reduction in costs, and we expect that it will enable our products to be more competitively priced.

Our sources of supply of other component sub-parts are all competitively priced and we have a sufficient number of other sources of supply available to us should the need arise for additional components. If a termination of an existing relationship with any current supplier occurs we do not expect to have any difficulty in replacing that source. We presently purchase most of the woofers used in our systems from a non-affiliated Canadian company that produces them according to our specifications.

### SALES AND MARKETING

Domestic. In addition to advertising in trade journals and attending industry conventions for promotion and sale of our products, we have established a network of distributors to cover the territorial United States. Currently, we have approximately 100 dealers for our Professional line, 6 distributors for our Professional and Commercial lines, 20 dealers for our Home Theatre line, 2 domestic and 6 international distributors for our Home Theatre line, and 100 dealers for our Commercial line. These outlets sell our products in approximately three-quarters of the United States and six foreign countries. The dealer agreement may be terminated without cause by either party on 30 days notice.

We train the sales representatives to enable them to deal more easily with customer questions. As manufacturers, we are always available to respond to inquiries of customers and potential customers, if and when required. Although we are small in comparison to the industry leaders, we are seeking to become established in a niche market consisting of commercial and residential customers who are more interested in a truer reproduction of sound than in a brand name.

In June 1999, we ceased selling our loudspeaker systems directly to end-users. Up to that time, we sold only the Professional Contractor Loudspeaker Systems to end-user customers, primarily churches, schools, nightclubs and similar establishments. These systems contained ribbon drivers manufactured by others. From June 1999 through June 2000, we converted to a manufacturing company and developed more products. These additional products consisted of the Commercial line of Universal Series Loudspeaker systems and Home Theatre speaker systems. In 2003, we sold 258 units of our Universal Series systems, 285 units



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of our Home Theatre Systems, 130 units of our Professional Contractor systems, 75 units of our Studio Series systems, 415 units of our RLA Series systems, and 137 units of our Design Series systems.

We will continue to design and manufacture the same products as previously sold to end-users for sale through our dealer network. The Universal Series and Home Theatre lines, part of our Studio Series line, and some models of our RLA Series line contains our ribbon driver model PRD 500. The Professional Contractor Loudspeaker line and other models of the RLA Series line contains our ribbon driver model PRD 1000.

International. We are also engaged in marketing and promotion internationally. Our international business involves a number of risks, including:

- o foreign currency exchange fluctuations;
- o political and economic instability;
- o difficulty in managing distributors or sales representatives;
- o tariffs and other trade barriers; and
- o complex foreign laws and treaties including employment laws.

Because our sales are in US currency, foreign currency exchange fluctuations could materially affect us negatively. A decrease in the value of foreign currencies as they relate to the U.S. dollar could make the pricing of our products more expensive than products of our foreign competitors that are priced in foreign currencies. Because of the fluctuating exchange rates and our involvement with a number of currencies, we are unable to predict future operating results.

In January 1999, the new "Euro" currency was introduced in European countries that are part of the European Monetary Union, or EMU. During 2002, all EMU countries replaced their national currencies with the Euro. Because it is too early to determine the effect the Euro will have on the marketplace, we cannot determine the effect this may have on our business.

In the future we expect to make significant investments in our operations, particularly to support technological developments and sales activities. As a result, operating expenses are expected to continue to increase. As we develop and introduce new products and expand into new markets such as international, direct and OEM markets, we intend to make such investments on a continuing basis, primarily from revenues generated from operations and from funds raised from sales of our stock. If our net sales do not increase along with capital requirements or other investments, we are likely to continue to incur net losses and our financial condition could be materially and adversely affected. Since 1998 we have not been profitable due mostly to the shift in our operating focus, and we cannot be certain that we will achieve or sustain profitability in the future.

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### COMPETITION

Our main competitors are JBL Professional, a division of Harmon International, Inc.; Eastern Acoustics Works, Inc.; Meyer Sound, Inc.; Turbosound, Inc.; and Renkus-Heinz, Inc. All of these companies have substantially greater assets and financial resources than we do. Most of the competitors compete in both the higher priced, more sophisticated line of

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loudspeaker systems, which are similar to our Professional Contractor Speaker Systems, and the lower priced, less sophisticated line of loudspeaker systems, similar to our Universal Series Speaker Systems. Meyer Sound and Renkus-Heinz are engaged only in the more expensive speaker systems. All of these competitors presently use the compression driver component in their sound systems. Although our ribbon driver products are new, the nature of the market for our loudspeaker products is highly competitive and sensitive to the introduction of new products. As a result, we may experience increasing competition in the future.

Our success will depend, in part, upon our ability to increase sales in our targeted markets. We may not be able to compete successfully with our competitors and the pressures from competitors may have a material adverse effect on us. Our success will depend in large part upon our ability to increase our share of our target market and to sell additional products to existing customers. However, future competition could result in price reductions, reduced margins or decreased sales of our products.

We currently compete primarily with the internal design efforts of larger and more established companies that have larger technical staffs, more established and larger marketing and sales organizations and significantly greater financial resources than we have. Such competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They are able to devote greater resources to the development, sale and promotion of their products than we are able to devote. They may develop products that are superior in certain respects to our products or may develop products that achieve greater market acceptance.

### PROPRIETARY TECHNOLOGY

We are the owners of the proprietary ribbon driver technology for our models PRD 500 and PRD 1000. We have no patents on this technology. However, we have filed a Disclosure Statement with the US Patent and Trademark Office as evidence of our conception of the invention, and we filed a patent application in September 2002. Although we have filed for a patent we cannot be certain that a patent will be granted, or that it will give us an advantage over our competitors.

The laws of some foreign countries do not protect or enforce proprietary rights to the same extent as do the laws of the United States. Also, our domestic and international competitors may develop other technology that produces results similar to our technology. We expect that some loudspeaker products may be subject to patent infringement claims as the number of products and competitors in our industry grows. As a result, third parties may assert patent infringement claims against us in the future, and such claims may not be resolved in our favor. Any such claims, with or without merit, could be time-consuming and may result in costly litigation. Such claims may also require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if they become necessary, may not be available on terms that are

favorable to us, if at all. In addition, we may be forced to commence litigation in the future to protect our trade secrets or proprietary rights, or to determine the validity and extent of the proprietary rights of others. Such possible litigation could result in substantial costs and diversion of our energy and resources.

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### EMPLOYEES

We have a total of 19 employees, one of which is executive, three are administrative, one is a marketing director, one is in technical communications, one is a sales manager, two are in engineering and ten are technical and assembly personnel. In the past, we have employed additional temporary and part-time employees to meet production obligations and fill orders. There is presently no labor union contract between any union and us. We do not anticipate our employees will seek to form or join a union for the foreseeable future.

### BUSINESS STRATEGY

As a result of our experience, we have determined that maintaining consistent contact with distributors, customers and others in the industry and continued marketing through conventions and trade magazines will produce additional business. We have determined that marketing our products by the distributor/sales representative network is best suited to generate revenue. Our distributors are expected to be our primary source of business in coming years. In addition, the sales representatives will enable us to monitor the effectiveness of our marketing program. Now that we have the ability to manufacture our own ribbon drivers, we will derive savings from the cost of purchasing compression drivers and ribbon drivers from third parties. Both the cost savings and the quality of the lower distortion, as demonstrated by our Tef 20 analysis device, are expected to enable us to establish a place in the home, commercial and professional loudspeaker markets.

We have recently re-focused our business on the development and application of our ribbon driver technology. This new business may not be successful and our future operating performance may not bring about the results that we are seeking. Our operating results for future periods are subject to all of the risks and uncertainties which are inherent in the establishment of new business enterprises, and in particular will depend upon:

- o market acceptance of our ribbon driver technology;
- o our success in establishing and expanding the distribution network nationwide and internationally;
- o our success in establishing ribbon driver products as a retail product line;
- o our success in attracting a strategic partner;
- o availability of capital;
- o our success in attracting and retaining motivated and qualified personnel, particularly in the technical areas; and
- o our marketing of new products and ribbon driver technology applications.

Our initial market concentration has been in the area of church construction and cinema theatre construction. The larger speakers we currently manufacture have been specifically designed for use in the church and cinema markets.

We intend to continue advertising in trade journals and attending industry conventions to maintain our image as a competitor in the loudspeaker

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industry in the U.S. and internationally. We are seeking to derive profits and competitiveness by sales through the dealer network of our product line using our less costly ribbon driver, which we have manufactured since 2001. However, we cannot assure investors or predict profits from distributor sales or any other business activity.

At the appropriate time, we intend to investigate possible strategic alliances with key industry participants to strengthen our image, our product components and our distribution pattern. We cannot be certain that a future alliance opportunity will present itself; or, if an opportunity is presented, that it will result in a profitable working relationship. It is likely that in some future financial quarter or quarters, our operating results will be below the expectations of securities analysts and investors. If a shortfall in revenue occurs, the market price for our common stock may decline significantly. The factors that may cause our quarterly operating results to fall short of expectations include:

- o our ability to develop and market our new ribbon driver loudspeaker products in a timely manner;
- o the size and timing of customer orders;
- o seasonality of sales;
- o availability of capital;
- o the degree and rate of growth of the markets in which we compete and the accompanying demand for our loudspeaker products;
- o our suppliers' ability to perform under their contracts with us.

Many of these factors are beyond our control. For these reasons, period-to-period comparisons of our financial results may not necessarily assist in forecasting our future performance.

### PROPERTY

We do not own any real property. We lease and operate in 19,500 square feet of office and factory space at our current headquarters address from a nonaffiliated landlord. The lease expires on August 31, 2004. The monthly rental is presently \$4,650. Our facility is divided into four equal 3,000 square foot sections that are internally connected plus one 7,500 square foot adjoining section. One of the 3,000 square foot sections is used for cabinet fabrication; another is used for storage of completed cabinets and component storage; the third is used for assembly and shipping; and the fourth is used for engineering and administration. The 7,500 square foot section is used for inventory, packaging and trade show materials storage. These facilities are suitable for producing in excess of 300 finished speaker cabinets per week and for the production of up to 1,500 ribbon drivers per month. Although we have no plans to relocate our facility, should the occasion arise to do so, there is ample factory and office space available at other locations in the region at similar or competitive rates. In addition, we have three subcontractor cabinet shops that add to our production capabilities. These companies are highly automated and can supply up to a total of 2000 cabinets per week on scheduled notice.

In July 2003, we agreed to lease an additional 7,500 square feet of

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space for \$2,000 per month. We have built-out this space, and are using it for (a) additional inventory space for the components and cabinets needed for planned increases in production, (b) additional engineering testing space to perform critical tests and produce data for sound system designers to provide specifications for products, and (c) on-site product demonstrations. We anticipate that these two leased properties, totaling 27,000 square feet at an aggregate monthly rental of \$6,650, will be sufficient to meet our needs for projected sales levels for the next two to three years.

### LITIGATION

On December 24, 2002, 21-Day Capital Corporation filed a complaint against us in the Superior Court of California, County of Los Angeles. 21-Day Capital Corporation is the assignee of certain rights of Muir, Crane & Co. The complaint alleges breach of contract and seeks the payment of \$48,750.67, plus interest, attorneys' fees and costs, and other relief as the court deems proper. We filed an answer on February 6, 2003 denying the allegations contained in the complaint and asserting affirmative defenses. In February 2004, we settled this claim and agreed to pay \$35,000 in such settlement.

### MANAGEMENT

#### DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The following table sets forth the names, ages and offices of the Company's executive officers and directors:

NAME	AGE	OFFICE
John M. Gott	53	President, CEO, CFO and Director
Robert H. Luke, Ph.D.	61	Director
Michael L. Maples	54	Director

JOHN M. GOTT, our President, Chief Executive Officer, Chief Financial Officer and Director, founded SLS in July 2000 in connection with the merger between SLS and its predecessor. He was also founder and Chief Executive Officer of Sound and Lighting Specialists, Inc., the predecessor of SLS International, Inc., which was founded in October 1994. The predecessor engaged in the sale and installation of sound and lighting systems. In that capacity he spearheaded our growth with respect to the sale and installation of sound and lighting systems across the world, including in Carnegie Hall and Disney World in Tokyo. He was our primary salesman through August 2001, when we hired another salesman. Mr. Gott has also been instrumental in the conceptual design and marketing of most of our products. Mr. Gott has acted in his current capacities since our inception.

ROBERT H. (ROBIN) LUKE, PH.D., has served as a Director since 2001. He is Professor of Marketing and the Department Head of the Marketing Department at Southwest Missouri State University. He has served as the first Department Head of two Marketing Departments and directed the development of the MBA/MPA programs for the University of the Virgin Islands. Dr. Luke has owned and developed several businesses and regularly consults with major U.S. corporations and institutions on marketing issues as a Senior Consultant with R.H. Luke & Associates. He served the Academy of Marketing Science as a member of its Board of Governors from 1992 to 1996 and as Vice President of Development, Vice

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President and Vice President for Academic Affairs. He presently serves as a

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Board Member of the Marketing Management Association. He has given or continues to give service commitments to the Boards of Directors or Boards of Advisors of the following organizations: Missouri Partnership for Outstanding Schools, Ozark Greenways, Community Investment Alliance, Sports Directories International, the Community Foundation of the Ozarks, Vision 20/20, the Downtown Springfield Association, Ozarks Chapter of the Boy Scouts of America, A+ Advisory Board of Glendale High School, and Lake County Youth Soccer.

Dr. Luke has presented numerous papers at international, national and regional marketing conferences. He serves on the Editorial Review Board of the Journal of the Academy of Marketing Science, Journal of Marketing Management. His writings have appeared in over 14 publications. He is the author of Business Careers, an informational source on career opportunities for students, counselors and advisors wishing to know more about business professions. At the age of sixteen, under the name Robin Luke, he wrote and performed "Susie Darling," a song that sold over two million copies from 1958 to 1960 and became number one around the world. His career as a recording artist spanned five years and 14 records. He has received numerous awards, including "Distinguished Fellow of the Academy of Marketing Science," the Marketing Management Association's Firooz Hekmat Award in Consumer Behavior and their prestigious Marketing Excellence Award, "best paper awards" from national and international organizations, and the Gift of Time Award from his home city of Springfield Missouri.

MICHAEL L. MAPLES has served as a Director since 2001. He is Chief Financial Officer, Chief Administrative Officer, Vice President, Treasurer and Corporate Secretary of TranSystems Corporation, an engineering, planning, and consulting firm for the transportation industry. From 1994 to 1996, he was Senior Financial Consultant for Glass & Associates, a consultant to businesses in critical stages of development. From 1991 to 1994, Mr. Maples was Senior Vice President and Controller for Franklin Savings Association, a publicly held group of financial companies. From 1987 to 1991, he was Vice President of Finance & Information Systems for McNally Wellman Company. From 1987 to 1989 he was Treasurer and Corporate Secretary for McNally Pittsburgh, Inc., a group of privately owned engineering and manufacturing companies supplying equipment, systems, parts, and service to the international and domestic material handling industry. From 1983 to 1987, he was Controller and Staff CPA for Gage & Tucker, a multi-office law firm specializing in corporate representation. From 1976 to 1983, he was a Certified Public Accountant, first at Touche Ross & Co., then with a regional firm, and finally as a sole practitioner.

Each director is elected at the annual meeting of stockholders and each director is elected to serve until his successor shall be elected and shall qualify. Executive officers may be removed from office at any time by the Board of Directors.

We presently have no audit, compensation or nominating committee. However, Mr. Maples qualifies as an audit committee financial expert and he is "independent" as defined in Rule 4200(a)(15) of the NASD's listing standards.

As disclosed above, we currently have only one executive officer, who is also a director, and two other directors. Due to the number of other demands on their limited time, we have not yet dedicated the time necessary to formulate and adopt a code of ethics. However, we intend to adopt a code of ethics in 2004.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

No reports have been required under Section 16(a) of the Securities Exchange Act of 1934, as amended, because our common stock is not registered under Section 12 of such act.

STATEMENT AS TO INDEMNIFICATION

Section 145 of the Delaware General Corporation Law provides for indemnification of our officers, directors, employees and agents. In general, these sections provide that persons who are officers or directors of the corporation may be indemnified by the corporation for acts performed in their capacities as such.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us pursuant to the provisions in our By-Laws, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

EXECUTIVE COMPENSATION

The following summarizes the principal compensation received by our executive officers for the fiscal years indicated:

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	LONG-TERM COMPENSATION	
				OTHER ANNUAL COMPENSATION (A)	COMMON STOCK UNDERLYING AWARDS OF OPTIONS
John M. Gott	2003	\$60,460	\$ 0	\$11,734	10,000
	2002	\$50,440	0	\$ 3,898	0

(a) Represents \$3,768 in 2003 and \$3,898 in 2002 for payments of medical insurance and \$7,966 in 2003 for personal use of a company-owned automobile.

Mr. Gott also serves as a director but receives no compensation for acting as a director. We currently provide directors who are not officers with an annual grant of options to purchase 10,000 shares of our common stock at fair market value on the date of grant.

Stock Options. The following table contains information concerning stock options granted in 2003, including the potential realizable value of each grant assuming that the market value of our common stock were to appreciate from the date of grant to the expiration of the option at annualized rates of (a) 5% and (b) 10%, in each case compounded annually over the term of the option. The assumed rates of appreciation shown in the table have been specified by the U.S.

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Securities and Exchange Commission for illustrative purposes only and are not intended to predict future stock prices, which will depend upon various factors,

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including market conditions and future performance and prospects. Options become exercisable at the time or times determined by the Compensation Committee of the Board of Directors; the options shown below were immediately exercisable. All of the options shown below have purchase prices equal to the fair market value of our common stock on the date of grant.

NAME	NUMBER OF SHARES OF COMMON STOCK UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE
John M. Gott	10,000	6.9%	\$0.25

The following table sets forth the value of unexercised "in-the-money" options held at December 31, 2003 (the difference between the aggregate purchase price of all such options held and the market value of the shares covered by such options at December 31, 2003).

NAME	NO. OF SHARES UNDERLYING UNEXERCISED OPTIONS AT 12/31/03 (EXERCISABLE/ UNEXERCISABLE)	VALUE OF IN-THE-MONEY (EX UNEX
John M. Gott	10,000 / 0	\$3

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### PRINCIPAL STOCKHOLDERS

The following table sets forth certain information as of January 27, 2004 with respect to the beneficial ownership of our common stock by all persons known by us to be beneficial owners of more than 5% of the outstanding shares of our common stock, by directors who own common stock and all officers and directors as a group:

NAME & ADDRESS	NUMBER OF SHARES	PERCENT OF CLASS (1)
John M. Gott	10,061,699 (2)	35.2%



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Springfield, MO 65804

Robert H. Luke 4885 S. Rhett Road Rogersville, MO 65742	16,500 (3)	*
Michael L. Maples 12608 Howe Drive Leawood, KS 66209	10,000 (3)	*
Richard L. Norton 818 N. Forest Springfield, MO 65802	3,244,198	11.3%
Officers and Directors as a Group (3 persons)	10,088,199	35.3%

All such shares are owned directly by the named stockholders.

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\* Less than one percent

- (1) Based upon a total of 28,616,128 shares outstanding on January 27, 2004.  
 (2) Includes (a) an option to purchase 3,244,198 shares owned by Richard L. Norton for \$.05 per share, or if lower, 50% of the 5-day average trading price and (b) an option to purchase 10,000 shares at \$0.25 per share.  
 (3) Includes options to purchase 10,000 shares at \$0.25 per share.

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### EQUITY COMPENSATION PLANS

On December 31, 2003, we had the following securities issued and available for future issuance under equity compensation plans:

	(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	NUMBER REMAINING FUTURE ISSUANCE COMPENSATION (EXCLUDING REWARDS IN
EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS	645,000 shares of common stock	\$0.29 per share	1,355, co
EQUITY COMPENSATION PLANS NOT APPROVED BY SECURITY HOLDERS	840,000 shares of common stock	\$0.25 per share	

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TOTAL	1,485,000 shares of common stock	\$0.27 per share of common stock	1,355, co
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### CERTAIN TRANSACTIONS WITH MANAGEMENT AND OTHERS

During 1999, certain receivables totaling \$80,000 due to SLS from Mr. Gott and Richard Norton were paid by them through an assignment of certain equipment rental fees. The assigned fees had been due them individually for equipment owned by them and leased to non-affiliated third parties. We also received a commission from Messrs. Gott and Norton for handling the rentals and income over a period of three years on their behalf. As of December 31, 2003, Mr. Gott owed \$511 to us.

### SELLING STOCKHOLDERS

The following table presents information regarding the selling stockholders. Neither the selling stockholders nor any of their affiliates have held a position or office, or had any other material relationship, with us.

SELLING STOCKHOLDERS	SHARES BENEFICIALLY OWNED BEFORE OFFERING	PERCENTAGE OF OUTSTANDING SHARES BENEFICIALLY OWNED BEFORE OFFERING (1)	SHARES TO BE SOLD IN THE OFFERING	PER BE
Steerpike (Overseas) Ltd. (1)	1,000,000	4.0%	1,000,000	
Beth Broday (1)	100,000	0.4%	100,000	

(1) Represents shares that may be acquired upon the exercise of outstanding and fully exercisable options at an exercise price of \$0.25 per share.

(2) Percentage of outstanding shares is based on 25,214,528 shares of common stock, which consists of the number of shares outstanding on August 6, 2003, plus the assumed exercise of the options to purchase 1,100,000 shares held by the selling stockholders.

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### PLAN OF DISTRIBUTION

The common stock offered by this prospectus is being offered by Steerpike (Overseas), Ltd., the selling stockholder. The common stock may be sold or distributed from time to time by the selling stockholder directly to one or more purchasers or through brokers, dealers, or underwriters who may act solely as agents at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. The sale of the common stock offered by this prospectus may be effected in one or more of the following methods:

- o ordinary brokers' transactions

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- o transactions involving cross or block trades
- o through brokers, dealers, or underwriters who may act solely as agents
- o "at the market" into an existing market for the common stock
- o in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents
- o in privately negotiated transactions
- o any combination of the foregoing

In order to comply with the securities laws of certain states, if applicable, the shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the state or an exemption from the registration or qualification requirement is available and complied with.

Brokers, dealers, underwriters, or agents participating in the distribution of the shares as agents may receive compensation in the form of commissions, discounts, or concessions from the selling stockholder and/or purchasers of the common stock for whom the broker-dealers may act as agent. The compensation paid to a particular broker-dealer may be less than or in excess of customary commissions.

Neither we nor the selling stockholder can presently estimate the amount of compensation that any agent will receive. We know of no existing arrangements between the selling stockholder, any other stockholder, broker, dealer, underwriter, or agent relating to the sale or distribution of the shares offered by this prospectus. At the time a particular offer of shares is made, a prospectus supplement, if required, will be distributed that will set forth the names of any agents, underwriters, or dealers and any compensation from the selling stockholder and any other required information.

We will pay all of the expenses incident to the registration, offering, and sale of the shares to the public other than commissions or discounts of underwriters, broker-dealers, or agents. We have also agreed to indemnify the selling stockholder and related persons against specified liabilities, including liabilities under the Securities Act.

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We have advised the selling stockholder that while it is engaged in a distribution of the shares included in this prospectus it is required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling stockholder, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered hereby this prospectus.

This offering will terminate on the date that all shares offered by this prospectus have been sold by the selling stockholder.

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### DESCRIPTION OF CAPITAL STOCK

#### COMMON STOCK

Our authorized capital stock consists of 75,000,000 shares of common stock, par value \$.001 per share. On March 26, 2004, there were outstanding a total of 29,128,780 shares of common stock. The holders of shares of common stock:

- o have equal ratable rights to dividends on funds legally available for dividends, provided dividends are declared by the our Board of Directors
- o are entitled to share proportionately in all of our assets available for distribution to holders of common stock upon any sale, dissolution or winding up of our affairs
- o do not have priority rights to subscribe for future offerings of shares of common stock by us
- o do not have any priority rights to convert their shares of common stock into any of our other securities
- o do not have rights to subscribe for shares or convert their shares
- o have no right to have their shares redeemed by us
- o are entitled to one vote per share on all matters upon which stockholders may vote at all meetings of stockholders

All shares of common stock now outstanding are fully paid for and are not assessable by us; and all the shares of common stock that are the subject of this offering, when issued, will be fully paid for and will not be assessable by us.

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The holders of shares of our common stock do not have cumulative voting rights, which are rights to accumulate votes to be cast for directors in an election. In this way a stockholder could vote his or her entire total of votes for one director only, and not vote for any other director. However, because there is no cumulative voting, the holders of more than 50% of the outstanding shares, when voting for the election of directors, can elect all of the directors to be elected, if they so choose. As a result, the holders of the remaining shares will not be able to elect any of our directors. On January 27, 2004, Mr. Gott owned 35.7% of our common stock. Such a concentration of ownership could have an adverse effect on the price of the common stock. It may have the effect of delaying or preventing a change in control, including transactions in which stockholders might otherwise receive a premium for their shares over the then current market prices.

Some provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us even if a change of control would be beneficial to our stockholders. These provisions include:

- o authorizing the issuance of preferred stock without common stockholder

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approval

- o prohibiting cumulative voting in the election of directors
- o limiting the persons who may call special meetings of stockholders

### PREFERRED STOCK

Our authorized capital stock also includes 5,000,000 shares of preferred stock, \$.001 par value, of which 2,000,000 shares have been designated Series A Preferred Stock and are outstanding on the date of this prospectus. Our articles of incorporation authorize a class of preferred stock commonly known as a "blank check" preferred stock. Specifically, the preferred stock may be issued from time to time by the board of directors as shares of one or more classes or series. Our board of directors, subject to the provisions of our Certificate of Incorporation and limitations imposed by law, is authorized to adopt resolutions to issue the shares; to fix the number of shares; to change the number of shares constituting any series; to provide for or change the voting powers, designations, preferences, and relative, participating, optional or other special rights, qualifications, limitations or restrictions; the dividend rights, including whether dividends are cumulative; to fix dividend rates; to fix terms of redemption, including sinking fund provisions; to fix redemption prices; to fix conversion rights; and to fix liquidation preferences of the shares constituting any class or series of the preferred stock.

In each such case, we will not need any further action or vote by our stockholders. One of the effects of undesignated preferred stock may be to enable the board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of our management. The issuance of shares of preferred stock pursuant to the board of director's authority described above may adversely affect the rights of holders of common stock. For example, preferred stock issued by us may rank prior to the common stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of common stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the common stock at a premium or may otherwise adversely affect the market price of the common stock.

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We designated 2,000,000 shares as Series A Convertible Preferred Stock. Such shares were sold from time to time in a private placement that commenced in September 2001 and concluded in July 2003. The shares are convertible to common stock one year from the date of purchase at a conversion rate of 10 shares of common stock for each share of preferred stock.

In March 2004, we commenced an offering of up to 1,000,000 shares of Series B preferred stock at \$20.00 per share. Each share is convertible into ten shares of our common stock six months after purchase. Prior to conversion, the shares have no voting rights. Attached to each preferred share are ten of our class C warrants. Each class C warrant has a term of three years and provides the right to purchase one share of our common stock at \$7.00 per share. The class C warrants are immediately exercisable and detachable from the preferred share. If the average closing market price for our common stock is equal to or greater than \$10.50 per share for a period of 30 days, then we are entitled to repurchase such warrants, with 30 days notice, at a price of \$.001 per warrant. Through April 19, 2004, 167,700 shares of the preferred stock, series B, have been sold for \$3,354,000.

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### STOCK OPTION PLAN

Our Board of Directors approved the SLS International, Inc. 2000 Stock Purchase and Option Plan (the "Plan") and the plan was approved by existing stockholders.

Our Board of Directors administers the Plan. The Plan affords key employees, officers, and consultants, who are responsible for our continued growth, an opportunity to acquire an investment interest in SLS, and to create in such individuals a greater incentive and concern for the welfare of SLS. By means of this 2000 Stock Purchase and Option Plan, we seek to retain the services of persons now holding key positions and to secure the services of persons capable of filling such positions.

We have reserved up to 2,000,000 shares of common stock for issuance upon exercise of options that may be issued from time to time under the Plan. The shares to be issued are subject to adjustment in the event of stock dividends, splits and other events that affect the number of shares of common stock outstanding.

Maximum Purchase. The options offered in the plan are a matter of separate inducement and are in addition to any salary or other compensation for the services of any key employee or consultant. The options granted under the plan are intended to be either incentive stock options or non-qualified or non-statutory stock options.

Option. Participants will receive such options as are granted from time to time by the Board of Directors. The option will state the number of shares and price of common stock to be purchased upon exercise of the options by the option holder.

Exercise Price. The purchase price per share purchasable under an option will be determined by the Board of Directors. However, for statutory options, the purchase price shall not be less than 90% of the fair market value of a share on the date of grant of such option. Furthermore, any option granted to a participant under the plan who, at the time the option is granted, is one of our officers or directors, the purchase price shall not be less than 100% of the fair market value of a share on the date of grant of such option. In the case of an incentive stock option granted to a participant who, at the time the option is granted, is a 10% stockholder, the purchase price for each share will be an amount not less than 110% of the fair market value per share on the date the incentive stock option is granted.

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Term of Option. The term of each option shall be fixed by the Administrator which in any event will not exceed a term of 10 years from the date of the grant.

Termination of Employment. The Administrator will have the right to specify the effect to a participant upon his or her retirement, death, disability, leave of absence or any other termination of employment during the term of any option.

Amendments. The Board of Directors may amend, suspend, discontinue or terminate the Plan; provided, however, that, without approval of our stockholders, no such amendment, suspension, discontinuation or termination will be made that would (1) cause Rule 16b-3 under the Securities Exchange Act of 1934 to become unavailable with respect to the Plan; (2) violate the rules or

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regulations of any national securities exchange on which our shares are traded or the rules or regulations of the NASD that are applicable to us; or (3) cause us to be unable, under the Internal Revenue Code, to grant investment stock options under the Plan.

### WARRANTS

SLS has authorized the issuance and sale of Class A Warrants and Class B Warrants as part of the units offered. Each warrant provides the right to purchase one share of common stock at a specified price. The Class A Warrant was originally exercisable for a term of 6 months at a price of \$.50 per share. The Class B Warrant was originally exercisable for 2 years after exercise of the attached Class A Warrant at a price of \$3.00 per share. Through a series of extensions, the Class A Warrants and the Class B Warrants are now exercisable through August 4, 2004. The Class A Warrants and Class B Warrants are immediately detachable from the common stock but are not separable from each other until the Class A Warrant is exercised. The Class A Warrants are immediately exercisable after they are issued. If the Class A Warrant is not exercised on or prior to August 4, 2004 (or such later date as extended by the Company), or if the Class A Warrant is redeemed by SLS, the Class A Warrants and the Class B Warrants shall be void and of no effect.

If the average closing market price for SLS's common stock is at least equal to the exercise price for the Class A or Class B Warrant for a period of 10 days, then such warrants are capable of being repurchased by SLS at a price of \$.001 per warrant. This repurchase by SLS can occur only after SLS mails a 30-day notice to each holder of the warrants that are to be repurchased. However, the holder of the warrants can still exercise the warrants during the 30-day notice period.

If SLS issues additional shares to others for any reason, other than a consolidation, merger, stock split, or sale of all the assets of SLS, the holder of the warrants will have no rights to purchase any more shares than are represented by the warrants. In addition, no adjustment or change in the exercise price of each warrant will be made, except if a stock split is declared by SLS. In case of a stock split, the exercise price of the warrants shall be adjusted higher or lower depending upon whether the stock split is a reverse stock split or forward stock split. A forward stock split means the shares are being split so that more shares will be outstanding after the stock split. In a forward stock split, the exercise price of the warrants shall be adjusted to permit the purchase of more shares of stock for the original exercise price. If there is a reverse stock split, there will be a reduction in outstanding shares and the exercise price of the warrant shall purchase fewer shares.

Unless and until a warrant is exercised, each warrant holder will not own any equity interest in SLS by virtue of his ownership of the warrant. The warrant holder may not vote as a stockholder. The warrant holder also will not have rights to any distributions to stockholders unless and until the warrant is exercised and SLS receives the cash consideration for the purchase of the common stock. SLS shall reserve such number of shares of common stock as shall be equal to the number of Class A and Class B Warrants issued. The shares are reserved for future issuance upon exercise of the warrants. The shares to be issued upon the exercise of the warrants have also been registered with the Securities and Exchange Commission. Upon exercise of the warrants, such shares of common stock issued to exercising investors will be freely tradeable and will not constitute

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restricted securities as such terms are defined under the Securities Act. The sole exception to this will be shares purchased in the offering by officers and directors of SLS. Such shares purchased by them shall be held by them for investment.

### SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have 30,21224,780 shares of common stock issued and outstanding. On June 10, 2004, 15,513,449 of our outstanding shares are deemed to be restricted shares un CPAs. Mr. Salamone serves as Vice Chairman Trustees for St. Francis College located in Brooklyn Heights, New York, as Chairman of the Board M&T Bank.

#### Experience, Skills and Qualifications

Mr. Salamone has more than 35 years of experience in the financial services industry and brings significant accounting

### **HERBERT L. WASHINGTON**

#### **Member of the Audit Committee**

#### **Director since 1996**

Mr. Washington, age 65, has been since 1980, President of H.L.W. Fast Track, Inc., a fast food restaurant. He has also served as Chairman of the Federal Reserve Bank of New York ( FRBNY ) Buffalo Branch Board from 1996 to 2000, Chairman of the Board of Commerce and of the Big Ten Athletic Advisory Committee. Mr. Washington is a director of M&T Bank.

#### Experience, Skills and Qualifications

Mr. Washington brings extensive business acumen, valuable entrepreneurial skills and financial re



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**ROBERT G. WILMERS**  
**Chief Executive Officer**

**Chairman of the Board  
of Directors**

Mr. Wilmers, age 81, serves as Chairman of the Board and Chief Executive Officer of M&T and of M&T Bank. He has held the post of Chief Executive Officer for more than 30 years, and also served as Chairman of the Board for most of those years. Mr. Wilmers serves as Chairman of M&T Bank's Executive Committee and is a member of its Trust and Investment Committee. He served as Chairman of the Empire State Development Corporation from 2008 to 2009, as Chairman of the New York State Bankers Association in 2002 and as a director of the FRBNY from 1993 to 1998.

**Chairman of the  
Executive Committee**

**Director since 1982**

**Experience, Skills and Qualifications**

Mr. Wilmers brings substantial managerial and leadership experience having led M&T through multiple economic cycles. As Chief Executive Officer of M&T Bank, he transformed M&T from a bank with \$2 billion in assets to a \$122.8 billion financial services company, overseeing 24 acquisitions and expanding M&T's footprint and business lines. Mr. Wilmers has received many honors and awards for his service to the banking industry, as well as for his leadership and contributions to the Buffalo, New York community. He holds honorary degrees from Canisius College, Niagara University and the State University of New York at Buffalo. Mr. Wilmers graduated from Harvard College and the Harvard Graduate School of Business Administration.

**Table of Contents****DIRECTOR COMPENSATION**

The following table sets forth M&T's 2015 compensation structure, effective as of April 1, 2015, for directors' fees (for directors who are not salaried officers of M&T or its subsidiaries):

**Elements of 2015 Directors' Fees**

Fees	Compensation
Annual Board Retainer	\$ 85,000
Board Attendance Fees – Per Meeting Attended	3,000
Committee Attendance Fees – Per Meeting Attended	3,000
Annual Audit Committee Chair Retainer	20,000
Annual Audit Committee (other than Chair) Retainer	10,000
Annual Risk Committee Chair Retainer	20,000
Annual Risk Committee (other than Chair) Retainer	10,000
Meetings with Regulators – Per Meeting Attended	3,000

Compensation is paid at the end of each calendar quarter in an amount equal to one quarter of a director's annual retainer and the meeting fees earned during such quarter. All directors are entitled to reimbursement for travel expenses incidental to their attendance at meetings. The Board of Directors has determined that no fees (retainer, attendance or otherwise) will be paid to a director who is a salaried officer of M&T or any of its subsidiaries, or where such individual receives payment for services to M&T or any of its subsidiaries immediately after ceasing to be a salaried officer.

The following table sets forth the compensation of M&T's directors in fiscal year 2015.

**2015 Director Compensation**

Name	Fees Earned or Paid in Cash <sup>(1)</sup>	Stock Awards <sup>(2)</sup>	Option Awards	Non-Equity Incentive Plan Comp.	Deferred Comp. Earnings	Changes in Pension Value and Non- Qualified Comp.	All Other Comp.	Total
Brent D. Baird	\$ 209	\$ 183,291	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,500
C. Angela Bontempo	\$ 90,183	\$ 89,817	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,000
Robert T. Brady	\$ 66,651	\$ 66,349	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,000

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T. Jefferson Cunningham III	\$ 91,690	\$ 91,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,000
Gary N. Geisel	\$ 113,142	\$ 112,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 225,900
Richard A. Grossi	\$ 16,042	\$ 15,875	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,917
John D. Hawke, Jr.	\$ 102,239	\$ 101,761	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,000
Patrick W.E. Hodgson	\$ 81,746	\$ 81,254	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,000
Richard G. King	\$ 80,245	\$ 79,755	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,000
Newton P.S. Merrill	\$ 34,816	\$ 34,434	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,250
Melinda R. Rich	\$ 54,640	\$ 54,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,000
Robert E. Sadler, Jr.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000 <sup>(3)</sup>	\$ 200,000
Denis J. Salamone	\$ 8,684	\$ 8,483	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,167
Herbert L. Washington	\$ 74,678	\$ 74,322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 149,000

- (1) Pursuant to the terms of the M&T Bank Corporation 2008 Directors Stock Plan, each director can elect to receive payment of his or her annual compensation in cash, in shares of M&T common stock, or in a combination of cash and shares of common stock for services as a director or advisory director of M&T and its subsidiaries. The amounts listed in this column show only the amount of fees paid in cash.

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- (2) Reflects fees paid in the form of M&T common stock, which is paid at the end of each calendar quarter. The value of M&T common stock paid is based on the grant date fair value, which equals the value as of the last business day of each calendar quarter on which the shares of common stock are quoted on the NYSE.
- (3) In accordance with the policy of the Board of Directors, Mr. Sadler is not eligible to receive directors fees due to his service to M&T as a paid consultant. The amount shown represents compensation Mr. Sadler earned in 2015 under a two-year consulting arrangement with M&T that renewed on July 1, 2014.

**M&T Bank Corporation 2008 Directors Stock Plan**

Pursuant to the terms of the M&T Bank Corporation 2008 Directors Stock Plan, each director can elect to receive payment of his or her annual compensation in cash, in shares of M&T common stock, or in a combination of cash and shares of M&T common stock for services as a director or advisory director of M&T and its subsidiaries. The number of shares of M&T common stock paid is determined by dividing the amount of such compensation payable in shares of M&T common stock by the closing price of M&T's common stock on the NYSE on the business day immediately preceding the day the compensation is payable. Shares of M&T common stock received in payment of fees vest immediately upon grant.

**M&T Bank Directors Fees**

M&T directors who also serve as directors of M&T Bank, if not salaried officers of M&T or its subsidiaries, receive attendance fees for each M&T Bank board, council or committee meeting attended, unless any such meeting is held concurrently with a meeting of the M&T board or committee, of which they are also a member. Except as described below, such attendance fees and the cash versus stock allocations are identical to the schedule of fees paid to directors of M&T for board and committee meetings attended described above.

Mr. Baird, as a member of the Directors Advisory Council of the New York City/Long Island Division of M&T Bank, received an annual retainer of \$10,000 and a fee of \$1,750 for each meeting he attended. Mr. Cunningham, as Chairman of the Directors Advisory Council of the Hudson Valley Division of M&T Bank, received a fee of \$1,000 for each meeting he attended. Mr. Geisel, as Chairman of the Directors Advisory Council of the Baltimore-Washington Division of M&T Bank, received a fee of \$300 for each meeting he attended. Mr. Sadler is a member of the Wilmington Trust, N.A. Florida Advisory Council but does not receive fees for attending these meetings. All directors of M&T Bank are entitled to reimbursement for travel expenses incidental to their attendance at meetings.

**Nonqualified Deferred Compensation Arrangements for Directors**

Mr. King is a participant in the Keystone Financial Director Fee Plan that was assumed by M&T in connection with its acquisition of Keystone. The plan is a nonqualified, unfunded plan under which a Keystone director could elect to defer directors fees in the form of phantom shares of Keystone's common stock. Upon the acquisition of Keystone, the right of participants to receive Keystone common stock was converted into the right to receive M&T common stock. Mr. King will receive annual distributions from his plan account over a five-year period commencing upon his resignation or retirement as a director of M&T.

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**CORPORATE GOVERNANCE OF M&T BANK CORPORATION**

**Corporate Governance Standards**

The Board of Directors believes that the purpose of sound and effective corporate governance is to ensure that shareholder value is maximized in a manner that is consistent with legal requirements and the highest standards of business ethics and integrity. The Board has consistently adhered to corporate governance standards that the Board believes promotes this purpose. The Board initially adopted corporate governance practices in 1997 and adopted formal corporate governance standards in 2003. Annually, the Board evaluates, in light of best practices and regulatory guidance, its Corporate Governance Standards.

The Board last amended its Corporate Governance Standards in October 2015. The current Corporate Governance Standards are available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm). These standards address, among other things, director qualifications and responsibilities, board committees, director compensation and independence, director orientation and continuing education, annual performance evaluations, corporate disclosure policy, controls and procedures regarding financial reporting and disclosure, and codes of ethics and business conduct.

Pursuant to M&T's Amended and Restated Bylaws, in an uncontested election when a quorum is represented, the affirmative vote of a majority of the votes cast in favor or against the election of a director nominee is required for the election of that nominee as a director. If an incumbent director in an uncontested election does not receive the affirmative vote of a majority of the votes cast in favor or against such director, that director is required to tender his or her resignation to the Board of Directors. The Board will then determine whether or not to accept such resignation, taking into account the recommendation of the NCG Committee. The Board will publicly disclose via a press release or SEC filing its decision to accept or reject such resignation within 90 days after the certification of the election results.

**Availability of Corporate Governance Standards**

In addition to being available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm), any shareholder can request copies of M&T's Corporate Governance Standards, the charters for each of the Audit Committee, Risk Committee, Nomination, Compensation and Governance Committee, or the Executive Committee, as well as our Code of Business Conduct and Ethics, and our Code of Ethics for CEO and Senior Financial Officers. To make a request, shareholders may either mail their request to M&T Bank Corporation, Attention: Shareholder Relations, One M&T Plaza, Buffalo, New York 14203, or send such request to Shareholder Relations via electronic mail at [ir@mtb.com](mailto:ir@mtb.com).

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### **Codes of Ethics**

M&T makes its policies and procedures available to all of our employees. These policies include our Code of Business Conduct and Ethics. Further, M&T requires all employees to annually certify that they have read and are familiar with the employee policies and procedures and their content, including our Code of Business Conduct and Ethics, and that they will adhere to such policies and procedures.

M&T's Code of Business Conduct and Ethics applies to our directors, officers, employees, as well as to our agents and representatives, including consultants. Our Code of Business Conduct and Ethics requires that individuals avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity and in the best interests of M&T. In addition, our Code of Business Conduct and Ethics expects individuals to report any observed illegal or unethical behavior and provides a retaliation-free reporting mechanism. Our Code of Business Conduct and Ethics is a guide to help ensure that all individuals live up to the highest ethical standards.

M&T also maintains a Code of Ethics for CEO and Senior Financial Officers that applies to our chief executive officer, chief financial officer, controller and all other senior financial officers designated by the chief financial officer from time to time. This Code of Ethics supplements our Code of Business Conduct and Ethics and is intended to promote honest and ethical conduct, full and accurate financial reporting and compliance with laws, as well as other matters.

Our Code of Business Conduct and Ethics and the Code of Ethics for CEO and Senior Financial Officers is available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm).

In accordance with SEC rules, M&T will post on its website or file a Form 8-K to report any amendment to or waiver from any provision in the Code of Ethics for CEO and Senior Financial Officers that applies to our chief executive officer, chief financial officer, controller, or persons performing similar functions.

### **Board Diversity**

M&T strives to foster an inclusive workplace environment that respects and values individual differences. We believe that employee diversity enhances the organization's ability to innovate, and therefore to maintain a competitive advantage. Likewise, M&T values diversity among its board members for these same reasons. Our Corporate Governance Standards provide that the NCG Committee in discharging its duties of reviewing the qualifications of director nominees, considers, among other factors, diversity, age, skills and experience in the context of the needs of the Board of Directors and regulatory obligations and guidance. In light of these guidelines, the NCG Committee endeavors to appoint a slate of nominees that represents diversity with respect to educational background, business experience, life skills, geographic representation and community involvement, as well as gender, race and national origin. The NCG Committee does not assign specific weight to any particular criteria; its goal is to identify nominees that, considered as a group, will possess the talents, skill sets and characteristics necessary for the Board of Directors to fulfill its responsibilities.

**Table of Contents****Board Independence**

Pursuant to our Corporate Governance Standards, the Board conducts an annual review of director independence. As a result of the review performed in April 2015, and as each new director was appointed to the Board, the Board determined, based upon the recommendation of the NCG Committee, that 12 of its current 16 members met the NYSE standard for independence. Of the 16 nominees standing for election as directors at the Annual Meeting, all of whom are currently serving as such, 12 continue to meet the NYSE standard for independence. Only Messrs. Wilmers, Czarnecki, Sadler and Salamone are not deemed to be independent. The Board uses categorical standards to assist it in making independence determinations. Under these standards, absent other material relationships with M&T that the Board believes jeopardize a director's independence from management, a director will be deemed to be independent unless the director or any of his or her immediate family members had any of the following relationships with M&T:

employment during any of the past three years (as an executive officer in the case of family members); the receipt of more than \$120,000 per year in direct compensation (other than director fees and pension or other forms of deferred compensation for prior service not contingent upon continued service and as an executive officer in the case of family members) during any 12-month period over the past three years;

affiliation or employment with a present or former internal or external auditor during any of the past three years;

employment with another company where any executive officers of M&T served on that company's compensation committee during any of the past three years;

being an executive officer of a charitable organization to which M&T contributed the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues in any single fiscal year during the preceding three years; or

being an executive officer of a company that makes payments to, or receives payments from, M&T for property or services in a fiscal year in an amount in excess of the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Additionally, if any business relationship described in the last bullet point above is a lending relationship, deposit relationship, or other banking or commercial relationship between M&T Bank on the one hand, and an entity with which the director or immediate family member is affiliated by reason of being a director, officer or a significant shareholder thereof, on the other hand, such relationship must meet the following criteria: (1) it must be made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with non-affiliated persons and it must not involve more than the normal risk of collectability or present other unfavorable features; and (2) with respect to extensions of credit by M&T Bank to such person or entity: (a) such extensions of credit have been made in compliance with applicable law, including Federal Reserve Board Regulation O and Section 13(k) of the Securities Exchange Act of 1934, as amended ( Exchange Act ) and (b) no event of default has occurred and is continuing beyond any cure period.

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In making its determination as to the independent directors, the Board considered the following categories of transactions, relationships and arrangements with directors and their immediate family members and any such person's principal business affiliations:

for Messrs. Brady and King and Ms. Rich, ordinary course, non-preferential extensions of credit or other financial services; and

for Mr. Hawke and Ms. Rich, payments by M&T to a director-affiliated company for services in an amount that does not exceed the greater of \$1 million or 2% of such company's consolidated gross revenues.

The Board of Directors, upon the recommendation of the NCG Committee, considered these transactions, relationships and arrangements and, consistent with the applicable independence standards, determined that they do not impair the relevant director's independence as a director of M&T or as a member of any of the committees on which he or she serves.

The Board of Directors considers all relevant facts and circumstances and the application of the categorical standards and, based on its review of this information, affirmatively determined that, other than Messrs. Wilmers, Czarnecki, Sadler and Salamone, each member of the Board of Directors is independent and does not have any material relationships with M&T or its subsidiaries.

## **Board Leadership Structure**

### ***Chairman and Lead Independent Director***

Mr. Wilmers serves as M&T's Chairman of the Board and Chief Executive Officer. He has held the post of Chief Executive Officer for more than 30 years, and also served as Chairman of the Board for most of those years. In light of Mr. Wilmers' significant leadership tenure with the organization, the Board believes that this is an appropriate structure for leadership of the Board of Directors because it fosters effective decision-making and clear accountability. The Board adheres to the Corporate Governance Standards on this topic and annually elects a non-executive Vice Chairman of the Board of Directors who performs the duties of lead independent director. Mr. Brady has served as the lead independent director since June 15, 2015 when he was elected to replace Jorge G. Pereira following his retirement from the Board of Directors at the 2015 Annual Meeting. The lead independent director presides over the executive sessions of the non-management directors.

### ***Executive Sessions of the Non-Management Directors***

The non-management directors meet at regularly scheduled executive sessions without management. Mr. Brady, Vice Chairman of the Board of Directors and the lead independent director, presides at these meetings. In the absence of the lead independent director, the non-management directors determine which director will preside at such meetings.

## **Board's Role in Risk Oversight**

The Board of Directors has delegated its risk oversight duties to the Risk Committee. At each Board meeting, the Board receives separate reports from the Chairman of the Risk Committee as well as the Chair of the Audit Committee. Additionally, the Management Risk Committee, which is the primary management-level risk committee, and M&T's Chief Risk Officer provide regular reports directly to the Risk Committee. Further, the Audit Committee and the Risk Committee meet jointly four times a year.





**Table of Contents****Board Attendance**

The Board of Directors held 12 meetings in 2015. Each of the directors attended at least 75% of the total number of meetings of the Board and each committee on which the director served.

M&T's Corporate Governance Standards encourage all members of the Board of Directors to attend its Annual Meeting of Shareholders, absent exigent circumstances. Of the nominees standing for election at the Annual Meeting, 13 were elected at the 2015 Annual Meeting of Shareholders and each of those directors attended that meeting except for Mr. Brady.

**Communications with the Board of Directors**

Any shareholder or other interested party wishing to communicate with the Board of Directors or any individual director may submit his or her written correspondence to M&T Bank Corporation's Corporate Secretary, One M&T Plaza, Buffalo, New York 14203. The Corporate Secretary may facilitate direct communications to the Board, the lead independent director, the non-management directors as a group, or individual directors, by reviewing and summarizing such communications.

**Board Committees and Member Composition During 2015**

Committee Member	Audit	Executive	Nomination, Compensation and Governance	Risk
Brent D. Baird		ü	Chairman	
C. Angela Bontempo	Chair			
Robert T. Brady	Financial Expert		ü	Risk Management
T. Jefferson Cunningham III				Expert
Mark J. Czarnecki				Risk Management
Gary N. Geisel			ü	Expert
Richard A. Grossi	ü			
John D. Hawke, Jr.				Chairman
Patrick W.E. Hodgson	Financial Expert	ü		
Richard G. King	ü			
Newton P.S. Merrill				
Melinda R. Rich				
Robert E. Sadler, Jr.				ü
Denis J. Salamone				

Herbert L. Washington

ü

Robert G. Wilmers

Chairman

**Audit Committee**

The Audit Committee has the authority and responsibility to engage and discharge the independent registered public accounting firm, pre-approve all audit and non-audit services to be provided by such firm, review the plan and results of the auditing engagement, review management's evaluation of the adequacy of M&T's system of internal controls over financial reporting, direct and supervise investigations into matters within the scope of its duties, and

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perform the duties set forth in its written charter and such other duties as are required by applicable laws or securities exchange rules. In addition, the Audit Committee serves as the Examining Committee for Wilmington Trust, N.A. and reviews the activities of the Examining Committee of M&T Bank. Ms. Bontempo (Chair) and Messrs. Hodgson, King and Washington served as members of the Audit Committee throughout 2015. Mr. Grossi became a member of the Audit Committee on November 17, 2015. Each currently serves as a member. The Audit Committee held six meetings in 2015.

The Audit Committee is comprised solely of directors who are not officers or employees of M&T and who the Board has determined have the requisite financial literacy to serve on the Audit Committee. In addition, the Board of Directors has determined that at least one member of the Audit Committee meets the NYSE standard of having accounting or related financial management expertise. The Board, based upon the recommendation of the NCG Committee, after reviewing all relevant facts and circumstances, determined that Ms. Bontempo and Mr. Hodgson each is an audit committee financial expert. Further, the Board determined that no member of the Audit Committee has any material relationship with M&T that might interfere with the exercise of the member's independent judgment and that each member meets the standards of independence established by the SEC and the NYSE. See Board Independence under the section titled CORPORATE GOVERNANCE OF M&T BANK CORPORATION.

The Audit Committee is governed by a written charter approved by the Board of Directors. The Audit Committee Charter is available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm).

## **Executive Committee**

The Board of Directors has empowered its Executive Committee to act when the Board of Directors is not in session, during which time the Executive Committee possesses all of the Board's powers in the management of the business and affairs of M&T Bank Corporation, except as otherwise limited by law. Messrs. Wilmers (Chairman), Baird and Hodgson served as members of the Executive Committee throughout 2015, and each currently serves as a member. The Executive Committee did not meet in 2015.

The Executive Committee is governed by a written charter approved by the Board of Directors. The Executive Committee Charter is available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm).

## **Nomination, Compensation and Governance Committee**

The Nomination, Compensation and Governance Committee is responsible for evaluating the efforts of M&T and of the Board of Directors to maintain effective corporate governance practices and identifying candidates for election to the Board of Directors. In addition, the NCG Committee is responsible for administering M&T's equity compensation plans and awarding new grants thereunder. It administers the M&T Bank Corporation Annual Executive Incentive Plan, the M&T Bank Corporation 2008 Directors' Stock Plan, and the M&T Bank Corporation Employee Stock Purchase Plan and makes such determinations and recommendations as it deems necessary or appropriate regarding the remuneration and benefits of employees of M&T and its subsidiaries. The NCG Committee is responsible for reviewing with management the Compensation Discussion

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and Analysis ( CD&A ) and providing a report recommending to the Board of Directors whether such CD&A should be included in the proxy statement. Messrs. Baird (Chairman), Brady and Geisel served as members of the NCG Committee throughout 2015, and each currently serves as a member. The NCG Committee held seven meetings in 2015.

The current Board of Directors of M&T is comprised of persons who were identified as being qualified director candidates by management and the Board of Directors. The NCG Committee considers nominees for director that are recommended by various persons or entities, including, but not limited to, non-management directors, our chief executive officer and other executive officers of M&T, and shareholders. In addition, the NCG Committee takes into account any contractual rights that persons or entities have with respect to nominees for director. In evaluating all nominees for director, including those recommended by shareholders, the NCG Committee considers whether each nominee has all the requisite experience, attributes and qualifications for board membership and not just certain specific qualities or skills.

The NCG Committee will consider candidates nominated by shareholders that are properly submitted in writing to M&T's Corporate Secretary at One M&T Plaza, Buffalo, New York 14203 and received no later than 120 days prior to the anniversary of the date on which M&T first mailed its proxy materials for the preceding year's Annual Meeting of Shareholders. For the 2017 Annual Meeting of Shareholders, M&T's Corporate Secretary must receive those nominations on or before November 4, 2016.

In considering nominees for director, including those recommended by shareholders, the NCG Committee reviews the qualifications and independence of the potential nominee in light of the composition of the current Board of Directors and its various committees. This assessment includes the potential nominee's qualification as independent, as well as consideration of diversity, age, skills, experience, tenure, contribution and appropriate geographic balance in the context of the needs of the Board of Directors and its committees.

The NCG Committee is comprised solely of directors who are not officers or employees of M&T. The Board determined that no member of the NCG Committee has any material relationship with M&T that might interfere with the exercise of the member's independent judgment and that each member meets the standards of independence established by the SEC and the NYSE.

The NCG Committee is governed by a written charter approved by the Board of Directors. The NCG Committee Charter is available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm).

## **Risk Committee**

The Risk Committee assists the Board of Directors in its oversight of M&T's risk management function, including the strategies, policies, procedures and systems established by management to identify, assess, measure and manage the major risks facing M&T. In discharging its duties of risk oversight, the Risk Committee provides input to management on risk appetite, risk profile and regulatory requirements and approves the effectiveness of M&T's risk management framework. Messrs. Hawke (Chairman), Cunningham, Geisel and Sadler served as members of the Risk Committee throughout 2015, and each currently serves as a member. The Risk Committee held 16 meetings in 2015.

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Regulation YY promulgated by the Federal Reserve Board in February 2014, required that publicly traded bank holding companies with total consolidated assets of \$50 billion or more must maintain a risk committee chaired by an independent director and by January 1, 2015, include at least one member with experience in identifying, assessing and managing risk exposures of large, complex financial firms commensurate with the company's structure, risk profile complexity, activities and size. In November 2014, each of the members of the Risk Committee completed a questionnaire to assess his qualifications in accordance with the FRB standards. Based upon the responses, Messrs. Cunningham and Geisel met the criteria to qualify as a risk management expert. Upon the recommendation of the NCG Committee, the Board appointed Messrs. Cunningham and Geisel as risk management experts of the Risk Committee effective January 1, 2015. Messrs. Cunningham and Geisel continue to serve as the risk management experts.

The Risk Committee is governed by a written charter approved by the Board of Directors. The Risk Committee Charter is available on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm).

## **NOMINATION, COMPENSATION AND GOVERNANCE COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Messrs. Baird (Chairman), Brady and Geisel served as members of the Nomination, Compensation and Governance Committee throughout 2015, and each currently serves as a member. No individual, who served as a member of the NCG Committee during 2015, was at any time an officer or employee of M&T or any of its subsidiaries.

The Board of Directors has determined that all members of the NCG Committee are independent and have no financial or personal relationships with M&T requiring disclosure pursuant to SEC rules (other than director compensation, equity ownership and transactions made in the ordinary course of business with its banking and other operating subsidiaries as described in this proxy statement).

In 2015, the NCG Committee engaged McLagan, an Aon Hewitt company, to provide compensation consulting services regarding our executive officer and director compensation, including with respect to the amount and form of executive compensation. The fees for such engagement totaled \$197,587.42. M&T also engaged McLagan to provide additional services. Specifically, McLagan provided compensation consulting services and compensation survey information to management during 2015 for a total cost of \$139,025. Management engaged McLagan for these services after consultation with the NCG Committee and the NCG Committee determined that no conflict of interest existed.

**Table of Contents****NAMED EXECUTIVE OFFICERS**

Set forth below are the 2015 Named Executive Officers of M&T.

<b>Name</b>	<b>Title</b>	<b>Years of Service at M&amp;T</b>
Robert G. Wilmers	Chairman	32
René F. Jones	Chief Executive Officer Chief Financial Officer	24
Mark J. Czarnecki	Executive Vice President President	38
Kevin J. Pearson	Chief Operating Officer	
	Executive Vice President	26
Richard S. Gold	Chief Risk Officer	26
	Executive Vice President	

**STOCK OWNERSHIP INFORMATION**

The tables below set forth direct and indirect ownership of common stock and restricted common stock by each of our directors, each of the Named Executive Officers (the NEOs), by all directors and executive officers as a group, and by each person who is known to be the beneficial owner of more than 5% of M&T's common stock as of February 29, 2016, together with the percentage of total shares outstanding represented by such ownership.

For purposes of these tables, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Exchange Act, where, in general, a person is deemed to be the beneficial owner of a security if such person has or shares the power to vote or to direct the voting of the security or the power to dispose or to direct the disposition of the security, or if such person has the right to acquire the beneficial ownership of the security within 60 days.

**Directors and Named Executive Officers Stock Ownership**

Name of Beneficial Owner	Number of Shares	Percentage of Class
Brent D. Baird	28,632	(11)
C. Angela Bontempo	11,738 <sup>(1)</sup>	(11)
Robert T. Brady	15,525 <sup>(2)</sup>	(11)
T. Jefferson Cunningham III	10,968	(11)
Mark J. Czarnecki	223,569 <sup>(3)</sup>	(11)
Gary N. Geisel	22,305	(11)
Richard A. Grossi	731	(11)
John D. Hawke, Jr.	4,206	(11)
Patrick W.E. Hodgson	59,299 <sup>(4)</sup>	(11)
Richard G. King	19,807	(11)
Newton P.S. Merrill	282	(11)
Melinda R. Rich	12,903	(11)
Robert E. Sadler, Jr.	115,529 <sup>(5)</sup>	(11)
Denis J. Salamone	311,978 <sup>(3)(6)</sup>	(11)
Herbert L. Washington	10,822 <sup>(7)</sup>	(11)
Robert G. Wilmers	4,286,124 <sup>(8)(9)</sup>	2.69%
René F. Jones	93,831 <sup>(3)(8)</sup>	(11)
Kevin J. Pearson	102,721 <sup>(3)(8)</sup>	(11)
Richard S. Gold	82,285 <sup>(3)(10)</sup>	(11)
Current directors and executive officers as a group (28 persons)	5,799,529 <sup>(3)(8)</sup>	3.63%



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- (1) Includes 400 shares held by trusts for which Ms. Bontempo is a trustee and in which she has a pecuniary interest and investment power.
- (2) Includes 8,000 shares held by a charitable remainder annuity trust of which Mr. Brady and his spouse are co-trustees and of which Mr. Brady's spouse is the current annuity beneficiary for the lesser of her life or 21 years.
- (3) Includes the following shares subject to options granted under (a) M&T's incentive compensation plans, and (b) plans of companies acquired by M&T, the obligations of which have been assumed by M&T and converted into options to receive shares of M&T common stock, all of which are currently exercisable or are exercisable within 60 days after February 29, 2016: Mr. Czarnecki 147,104 shares; Mr. Jones 44,132 shares; Mr. Pearson 78,456 shares; Mr. Gold 43,282 shares; Mr. Salamone 211,762; and all directors and executive officers as a group 775,952 shares. Out-of-the-money options are included in the shares presented as beneficially owned to the extent they are currently exercisable or exercisable within 60 days after February 29, 2016. Also includes shares of restricted common stock as of February 29, 2016 as follows: Mr. Jones 5,076 shares; and all directors and executive officers as a group 10,764 shares.
- (4) Includes 6,000 shares held by a close relative of Mr. Hodgson for which beneficial ownership is disclaimed. Also includes 52,000 shares owned by a corporation controlled by Mr. Hodgson which shares are held in a prime brokerage investment account with other securities that may be pledged from time to time.
- (5) Includes 26,610 shares owned by the Sadler Family Foundation, a charitable foundation formed by Mr. Sadler. Mr. Sadler is a trustee of the Sadler Family Foundation and holds voting and dispositive power over the shares owned by it.
- (6) Includes 7,917 shares that have been allocated for the benefit of Mr. Salamone under the Employee Stock Ownership Plan of Hudson City Savings Bank.
- (7) Includes 500 shares owned by a close relative of Mr. Washington.
- (8) Includes the following shares through participation in the M&T Bank Corporation Retirement Savings Plan: Mr. Wilmers 55,361 shares; Mr. Jones 6,607 shares; Mr. Pearson 2,611 shares; and all directors and executive officers as a group 79,419 shares. Such individuals retain voting and investment power over their respective shares in the Retirement Savings Plan.
- (9) See footnote (1) to the table set forth below under the section titled Beneficial Owners Holding More Than 5% of M&T Bank Corporation's Common Stock.

(10) Includes 2.068 shares held jointly with a close relative of Mr. Gold. Also includes 17 shares held indirectly as custodian for his son.

(11) Less than 1%.

**M&T Bank Corporation Insider Trading Policy**

All of M&T's directors, officers and employees are subject to M&T's Insider Trading Policy which prohibits short-term trading in M&T's securities, including but not limited to, the use of such strategies as exchange-traded options and the use of puts and calls, caps and collars and short sales. This policy effectively serves as an anti-hedging policy.

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The following table sets forth certain information with respect to all persons or groups known by M&T to be the beneficial owners of more than 5% of its outstanding common stock as of February 29, 2016.

**Beneficial Owners Holding More Than 5% of M&T Bank Corporation's Common Stock**

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
<b>Robert G. Wilmers and Others:</b>		
	Commerce House, Wickhams	
Mallarme Investments Limited	Cay 1	3,282,880
	Tortola, British Virgin Islands	2.06%
	Eskildsen & Eskildsen Calle 50	
R.I. REM Investments S.A.	102 Edificio Universal Planta	1,230,320
	Baja, Panama	less than 1%
	2711 Centerville Road	
Interlaken Foundation, Inc.	Suite 400	393,249
	Wilmington, DE 19808	less than 1%
	2711 Centerville Road	
Roche Foundation, Inc.	Suite 400	374,996
	Wilmington, DE 19808	less than 1%
	One M&T Plaza, 19 <sup>th</sup> Floor	
Elisabeth Roche Wilmers	Buffalo, NY 14203	461,273
	One M&T Plaza, 19 <sup>th</sup> Floor	less than 1%
Robert G. Wilmers	Buffalo, NY 14203	4,286,124
	Buffalo, NY 14203	2.69%
<b>Group Total</b>		<b>9,260,597<sup>(1)</sup></b>
		<b>5.82%</b>
Vanguard Group, Inc.	100 Vanguard Blvd.	12,633,075 <sup>(2)</sup>
		7.94%

BlackRock, Inc.	Malvern, PA 19355	9,871,084 <sup>(3)</sup>	6.20%
	55 East 52 <sup>nd</sup> Street		
FMR LLC	New York, NY 10055	9,761,477 <sup>(4)</sup>	6.14%
	245 Summer Street		
	Boston, MA 02210		

- (1) The members of this group have jointly filed with the SEC a Schedule 13D, as amended, indicating that they constitute a group as such term is used in Section 13(d)(3) of the Exchange Act. Each member of the group has indicated in such amended Schedule 13D or otherwise advised M&T that such member has sole voting and dispositive power with respect to the shares indicated opposite such member's name in the table. Robert G. Wilmers, Chairman of the Board and Chief Executive Officer of M&T, is also the sole director and President of the Roche Foundation, Inc., and holds sole voting and dispositive power over the shares owned by it. He is also a director and President of the Interlaken Foundation, Inc. and holds voting and dispositive power over the shares owned by it. As to Mr. Wilmers, the shares indicated in the table as being owned by him include the shares owned by the Interlaken Foundation, Inc., the Roche Foundation, Inc., and 400,000 shares owned by a limited liability company of which he is the sole member. See also the footnotes applicable to Mr. Wilmers in the table set forth above.
- (2) Vanguard Group, Inc. ( Vanguard ) filed an amended Schedule 13G with the SEC on February 10, 2016 reporting that it is deemed to be the beneficial owner of in excess of 5% of the outstanding shares of common stock. Vanguard reported that it has sole voting power with respect to 295,674 of the indicated shares, shared voting power with respect to 14,395 of the indicated shares, sole dispositive power with respect to 12,325,869 of the indicated shares, and shared dispositive power with respect to 307,206 of the indicated shares.
- (3) BlackRock, Inc. ( BlackRock ) filed an amended Schedule 13G with the SEC on February 10, 2016 reporting that it is deemed to be the beneficial owner of in excess of 5% of the outstanding shares of common stock. BlackRock reported that it has sole voting power with respect to 8,651,674 of the indicated shares and sole dispositive power with respect to all 9,871,084 of the indicated shares, which includes shares beneficially owned by certain subsidiaries of BlackRock.
- (4) FMR LLC ( FMR ) filed an amended Schedule 13G with the SEC on February 12, 2016 reporting that it is deemed to be the beneficial owner of in excess of 5% of the outstanding shares of common stock. FMR reported that it has sole voting power with respect to 844,779 of the indicated shares and sole dispositive power with respect to all 9,761,477 of the indicated shares, which includes shares beneficially owned by certain subsidiaries of FRM.

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M&T is the sponsor of a number of employee benefit plans that hold an aggregate of 3,999,993 shares of M&T common stock as of February 29, 2016. Its principal banking subsidiary, M&T Bank, has sole voting authority over 1,227,923 of these shares. The remaining 2,772,070 shares of M&T common stock are voted by the trustee of the applicable employee benefit plan pursuant to the instructions of the participants in accordance with the terms of each such plan. Certain of the directors and executive officers of M&T hold indirect beneficial interests in the holdings of these employee benefit plans. See also footnotes (3) and (8) to the table set forth on page 24.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Under Section 16(a) of the Exchange Act, M&T's directors and certain of our officers, and persons who beneficially own more than 10% of M&T's outstanding shares of common stock are required to report their beneficial ownership of the common stock and any changes in that beneficial ownership to the SEC and the NYSE. M&T believes that these filing requirements were satisfied by all of its directors and Section 16 reporting officers during 2015, with the exception of one transaction that was reported late for Mr. Brady. In making the foregoing statement, M&T relied on copies of the reporting forms received by it or on the written representations from such reporting persons that no additional forms were required to be filed under the applicable rules of the SEC.

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**TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS**

Mr. Wilmers is the beneficial owner of a 50% interest in an entity that is unaffiliated with M&T and which owns commercial aircraft that is leased to a commercial aviation service. From time to time, M&T and its subsidiaries chartered that plane from the aviation service for business use by Mr. Wilmers. M&T paid \$329,501 to the aviation service for use of the aircraft in 2015. M&T has determined that the fees paid to the aviation service for such business use of the aircraft are fair and competitive.

Mr. Sadler entered into a two-year consulting agreement with M&T effective July 1, 2014, pursuant to which he is paid a consulting fee of \$200,000 per year.

Directors and executive officers of M&T and their associates are, as they have been in the past, customers of, and have had transactions with, the banking and other operating subsidiaries of M&T, and additional transactions may be expected to take place in the future between such persons and subsidiaries. Any loans from M&T's subsidiary banks to such persons and their associates outstanding at any time since January 1, 2015 were made in the ordinary course of business of the banks on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the banks or their subsidiaries, and did not involve more than normal risk of collectability or present other unfavorable features.

In accordance with applicable NYSE listing standards, the NCG Committee reviews, approves or ratifies all related party or affiliate transactions between M&T and any of its affiliates, directors, officers and/or employees or in which any of such persons directly or indirectly is interested or benefited other than for extensions of credit otherwise covered by policies and procedures governed by Federal Reserve Regulation O. The NCG Committee determines whether a particular relationship serves the best interests of M&T and its shareholders and whether the relationship should be continued. In addition, M&T's Code of Business Conduct and Ethics, which is applicable to our directors, officers and employees, as well as to our agents and representatives, including consultants, requires that individuals avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the best interests of M&T. The Code of Business Conduct and Ethics expects individuals to report any illegal or unethical behavior that they observe. In addition, as described in Board Independence under the section titled CORPORATE GOVERNANCE OF M&T BANK CORPORATION, such related party or affiliate transactions are considered by the Board of Directors in its review of director independence.

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**PROPOSAL 2**

**ADVISORY, NON-BINDING PROPOSAL TO APPROVE THE COMPENSATION OF M&T BANK CORPORATION S NAMED EXECUTIVE OFFICERS**

M&T Bank Corporation believes that its 2015 compensation policies and practices are centered on a pay-for-performance culture and are strongly aligned with the long-term interests of its shareholders, while reducing incentives for unnecessary and excessive risk taking. Our executive compensation programs are described in detail in the sections titled COMPENSATION DISCUSSION AND ANALYSIS and EXECUTIVE COMPENSATION.

Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on July 21, 2010, requires that all U.S. public companies provide their shareholders with an advisory vote on the compensation of their NEOs. On January 25, 2011, the SEC adopted final rules implementing this requirement. Since the 2011 Annual Meeting of Shareholders, the Board of Directors has provided an annual shareholder advisory vote on the compensation of M&T s NEOs.

This proposal, commonly known as a say-on-pay proposal, gives shareholders the opportunity to vote on the overall compensation program of M&T and specifically as it applies to the NEOs through the following resolution:

**RESOLVED, that the 2015 compensation paid to M&T Bank Corporation s Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.**

The shareholder vote on this matter is advisory, meaning that it will serve as a recommendation to the Board of Directors, but will not be binding. The NCG Committee will consider the outcome of this vote when determining future executive compensation arrangements.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE COMPENSATION OF M&T BANK CORPORATION S NAMED EXECUTIVE OFFICERS.**

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**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview of M&T Bank Corporation and 2015 Financial Performance**

M&T Bank Corporation is a financial holding company that through its subsidiary banks offers a wide range of retail and commercial banking, trust, wealth advisory and investment services to its customers. As of December 31, 2015, M&T had consolidated total assets of \$122.8 billion, deposits of \$92.0 billion and shareholders' equity of \$16.2 billion, and employed 16,214 full-time and 1,083 part-time employees. M&T reported net income of \$1.1 billion and diluted earnings per common share of \$7.18 for the year ended December 31, 2015. The NCG Committee has traditionally based its compensation decisions on quantitative and qualitative measures, including net income, earnings per common share, return on assets, various capital ratios, composition of earnings, asset quality relative to the banking industry, responsiveness to the economic environment, achievement of business plans, and total return to shareholders. M&T's performance substantially met its business plan on these measures. In addition, M&T's total return to shareholders has consistently been in the top quartile of the peer group over the long term (10-, 15- and 20-year periods).

**Overview and Objectives of Executive Compensation Programs**

The objectives of M&T's executive compensation programs are to attract talented staff, develop leaders and retain executive officers capable of maximizing performance for the benefit of M&T. Our long-standing compensation philosophy is to emphasize long-term, equity-based compensation for our NEOs and other employees. This philosophy allows us to align our compensation with performance in three important ways:

- first, by explicitly linking the size and type of equity awards granted to the NEOs to the prior performance of M&T, including for the immediately preceding year;
- second, by tying the NEOs' ultimate realized compensation to the future value of M&T common stock, based on the performance of M&T, in alignment with our shareholders, and by seeking to balance growth with prudent risk-taking, including through the use of performance-based restricted stock unit awards;
- and
- third, through a culture of stock ownership and retention, including in accordance with M&T's stock ownership guidelines, whereby each NEO has a substantial financial stake tied to the long-term performance of M&T.

**Senior Executive Incentive Compensation Structure Enhanced Focus on Risk**

M&T continues to align its incentive compensation practices with the 2010 U.S. Interagency Guidance on Sound Incentive Compensation Policies and related supervisory recommendations from the Federal Reserve Board (the Interagency Incentive Compensation Guidance). The Interagency Incentive Compensation Guidance emphasizes three key principles: (i) providing employee incentives that appropriately balance risk and reward; (ii) ensuring effective controls and risk-management related to incentive compensation practices; and (iii) supporting strong corporate governance related to incentive compensation practices, including active and effective oversight by the organization's board of directors.





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Over the past several years, M&T has taken additional steps to balance its compensation practices with appropriate incentives that do not encourage imprudent risk-taking. In furtherance of these objectives, M&T has formalized its Senior Executive Incentive Compensation Structure, which is comprised of the following four elements.

### ***Performance-Based Restricted Stock Units***

Effective January 2014, M&T began awarding all equity-based compensation to our policy-making executive officers (including the NEOs) (sometimes referred to in this discussion as Management Group ) in the form of performance-based restricted stock units. Additionally, the NCG Committee awards performance-based restricted stock units to a group of senior officers who either manage a significant business line that may subject M&T to significant risk, or manage an area responsible for identifying, mitigating and otherwise controlling significant risk within the organization. The NCG Committee believes that awarding equity-based compensation in the form of performance-based restricted stock units discourages excessive risk-taking.

The NCG Committee, with the advice of management, determined that annual net operating return on average tangible common equity ( ROTCE ) is the appropriate performance measure by which to determine whether or not the restrictions on the performance-based restricted stock units will lapse each year, as this measure takes into account profitability, shareholder return and capital adequacy and therefore implicitly captures important risk factors. Each January prior to the annual grant of equity-based compensation, the NCG Committee establishes the ROTCE hurdle rate which must be met or exceeded for each vesting period of such award in order for the restrictions to lapse on the performance-based restricted stock units. Assuming each vesting period s performance requirement is met, the restrictions on awards of performance-based restricted stock units will lapse equally over a three-year vesting period beginning from the date of grant. The performance-based restricted stock units will receive dividend equivalent payments if and when dividends are paid on the common stock, but they do not have voting rights during the restricted period.

### ***Forfeiture Policy***

In April 2013, the NCG Committee adopted the Policy for Alignment of Incentive Compensation with Risk (the Forfeiture Policy ). The Forfeiture Policy sets forth the circumstances under which the NCG Committee may cause a downward adjustment in current year compensation as well as cause all or part of unvested equity awards to be cancelled. Such circumstances include, but are not limited to, action or inaction on the part of an employee that results in a significant loss event (either to M&T as a whole or to a significant business line), a restatement of the financial statements due to material noncompliance with applicable financial reporting requirements, or a violation of M&T s risk policies or procedures.

### ***Discretionary Incentive Award Guidelines***

Notwithstanding the discretionary nature of the incentive awards granted to the NEOs, M&T formalized guidelines that are to be considered when making incentive award determinations in order to strengthen the link between such awards and M&T s performance, including creation of shareholder value, as well as consideration of risk management metrics.

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### ***Stock Ownership Guidelines***

M&T's philosophy has been to foster a culture for its NEOs to acquire and retain M&T common stock. However, in 2013 M&T implemented formal Stock Ownership Guidelines for our Management Group in order to further align the interests of our executive officers with those of our shareholders. The Stock Ownership Guidelines mandate that executive officers own a significant amount of common stock measured as a multiple of base salary as follows:

Chairman and Chief Executive Officer five times annualized base salary;

Other NEOs three times annualized base salary; and

Other members of Management Group two times annualized base salary.

M&T requires its executive officers to achieve the targeted stock ownership levels within five years of being promoted or named to the applicable executive officer position, or the effective date of the Stock Ownership Guidelines, whichever is later. Shares counted toward these guidelines include any shares held by the executive directly or through a broker, shares held through an M&T Retirement Savings Plan, and shares held as restricted stock, restricted stock units, or restricted stock awards, whether vested or unvested. Unexercised stock options do not count as shares held by an executive toward meeting these guidelines. As of the date of this proxy statement, all Management Group members meet the stock ownership requirements.

### ***Incentive Compensation Governance***

M&T works continuously to ensure effective controls are in place for its incentive compensation programs. As part of M&T's enhanced enterprise risk framework, control functions, including Human Resources, Finance, Compliance, Legal and Risk Management, are actively involved in the oversight of M&T's incentive compensation programs. In addition, M&T's Chief Risk Officer meets with the NCG Committee on a semi-annual basis to discuss M&T's risk management performance.

Active and effective oversight of M&T's incentive compensation practices is provided by the NCG Committee. The NCG Committee is responsible for applying M&T's Forfeiture Policy and determining the appropriate pay mix and total compensation for M&T's NEOs. Additionally, the NCG Committee is responsible for establishing the appropriate performance measure for performance-based restricted stock awards. The NCG Committee shares one member with the Risk Committee, which helps to ensure the identification and prioritization of risk management matters in incentive compensation determinations.

### ***Enhanced Ability to Adjust Compensation in the Event of an Adverse Risk Outcome***

Working together, the components of the Senior Executive Incentive Compensation Structure continue to drive alignment of our NEOs' interests with those of our shareholders, are consistent with the safety and soundness of M&T, and provide an enhanced ability to account for the duration of risk and adjust compensation in the event of adverse risk outcomes.

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**Process for Determining Executive Compensation**

The NCG Committee is responsible for determining the compensation of our NEOs. As discussed below, the NCG Committee reviews the compensation levels of the NEOs relative to a group of commercial banking peers and considers the financial performance of M&T relative to that peer group as well as certain other factors, including our compensation mix strategy, risk management performance and individual and corporate performance, in determining the amount and mix of compensation to be paid to each NEO.

***Compensation Review***

On an annual basis, the NCG Committee compares compensation levels for each of the NEOs and M&T's financial performance, to a group of commercial banking institutions of similar business makeup, size and geographic reach. M&T selected the nine commercial banking companies listed below, which group was determined by taking the group of U.S. based commercial bank holding companies having assets of at least \$50 billion but not more than \$200 billion as of December 31, 2014, and removing those that had a significantly dissimilar business mix, or had a substantial international presence:

BB&T Corporation (BBT)

Comerica Incorporated (CMA)

Fifth Third Bancorp (FITB)

Huntington Bancshares Incorporated (HBAN)

KeyCorp (KEY)

PNC Financial Services Group, Inc. (PNC)

Regions Financial Corporation (RF)

SunTrust Banks, Inc. (STI)

Zions Bancorporation (ZION)

The 2015 peer group is unchanged from 2014 and continues to include PNC Financial Services Group, Inc., notwithstanding the fact that it is outside the asset size criterion, due to its similar business makeup and presence in many of the markets where M&T Bank conducts commercial banking activities.

Consistent with its philosophy of providing incentives that link compensation to firm performance and efforts to align with the Interagency Incentive Compensation Guidance, in determining the appropriate mix of compensation among base salary, annual cash incentives and equity-based compensation, the NCG Committee assesses the performance of each NEO after the year is complete against certain applicable aspects of management's annual business plan that is approved by the Board of Directors. The plan provides earnings-per-share growth, expense management, revenue growth, market concentration, credit quality measures and various other financial and risk management performance measures. The NCG Committee assesses the performance of each NEO in light of the business plan and relative to the

performance of the firms in the peer group.

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The NCG Committee considers a number of factors specific to each executive's role when determining the amount and mix of compensation to be paid. These factors are briefly summarized in the table below:

<b>Executive Officer</b>	<b>Factors Included Among NCG Committee Considerations</b>
<b>Chief Executive Officer</b>	The NCG Committee, in consultation with the independent consultant, determines the compensation for the Chief Executive Officer based upon its review of various corporate goals and objectives, consisting primarily of management's annual business plan.
<b>NEOs other than the Chief Executive Officer</b>	Recommendations of the Chief Executive Officer and other applicable members of Management Group, in consultation with the independent consultant, and an assessment of individual performance.
<b>All NEOs</b>	Financial performance of M&T (on a net operating basis, as defined by M&T) over the most recent fiscal year and prior years;
	Achievement of M&T compared to its corporate, financial, strategic and operational objectives and business plans, and compared to the performance of the peer group firms;
	Cumulative shareholder return;
	Performance relative to risk management objectives; and
	Compensation of comparable executives at the peer group firms.

### ***Role of Compensation Consultant***

In both 2014 and 2015, the NCG Committee retained the services of McLagan, an Aon Hewitt company, to review the NEOs' compensation and to provide insights for each of those years into the anticipated compensation levels within the peer group for 2014 and 2015 performance. This review included a review of the following components of NEO compensation:

- base salaries;
- annual cash incentives; and
- long-term incentives, including equity-based compensation.

The review compared NEO compensation to the compensation of the peer group as determined by McLagan based on information provided by the peer group in the 2014 and 2015 proxy statements, surveys and other sources. The NCG Committee uses information about the peer group to help assess the competitiveness of M&T's pay practices. McLagan also advised the NCG Committee regarding the reasonableness of the levels of compensation and alignment of pay and performance for the NEOs with respect to performance years 2014 and 2015. Additional information regarding McLagan and a description of the services provided by it and its affiliates to M&T during 2015, including the fees paid by M&T, is provided in the section titled "NOMINATION, COMPENSATION AND GOVERNANCE COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION."

### ***Individual Performance Assessments***

In addition to the overall performance metrics for M&T discussed above, the NCG Committee considered the following in assessing the performance of the NEOs during 2015 and the appropriate compensation levels and mix of compensation (base salary, annual cash incentive and equity-based compensation) to reflect that performance:

**Mr. Wilmers.** As Chief Executive Officer, Mr. Wilmers is responsible for M&T's overall financial performance. M&T substantially achieved its annual business plan for 2015. Mr. Wilmers' continued focus on and accountability to M&T's key priorities has allowed M&T to strengthen its regulatory compliance program, which enabled M&T to complete the merger of Hudson City Bancorp, Inc. ( Hudson City ) on November 1, 2015.

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**Mr. Jones.** As Vice Chairman of M&T Bank and Chief Financial Officer, Mr. Jones continues to lead M&T's efforts to strengthen its capital planning practices in response to regulatory changes. For 2015, he was also instrumental in maintaining strong (compared to the peer group) net income growth and earnings per share growth. Mr. Jones continued to provide strategic oversight of the Wilmington Trust businesses and was instrumental to the completion of the merger with Hudson City.

**Mr. Czarnecki.** As President and Chief Operating Officer, Mr. Czarnecki is responsible for the day-to-day management of M&T. He also shares accountability with Mr. Wilmers for the overall financial results of M&T as well as achievement of M&T's key priorities, which included the completion of the merger with Hudson City.

**Mr. Pearson.** As Vice Chairman of M&T Bank and Chairman of M&T Bank's senior loan committee (through September 2015), Mr. Pearson shares responsibility for M&T Bank's continued strong credit quality in 2015 and strong credit performance relative to the peer group. Effective October 2015, Mr. Pearson assumed responsibility for M&T's credit division and relinquished his role on M&T Bank's senior loan committee. He also played an integral role in preparing for the integration of Hudson City.

**Mr. Gold.** As Vice Chairman of M&T Bank and Chief Risk Officer, Mr. Gold maintains overall responsibility for M&T's risk management functions. Under his leadership, M&T has made continued progress on the enhancement of its compliance management program, including its BSA/AML regulatory compliance program and its enterprise-wide risk management framework. Mr. Gold's efforts in this regard were instrumental to the merger with Hudson City.

Based upon the achievements described above, and as set forth in more detail below, the total compensation opportunity for each NEO in 2016, when compared to the total compensation opportunity in 2015, resulted in no increase for each of Messrs. Wilmers and Czarnecki, an increase of 11.1% for Mr. Pearson and an increase of 6.7% for each of Messrs. Jones and Gold. Although the NCG Committee believed that increases in the total compensation opportunity for Messrs. Wilmers and Czarnecki were also warranted for 2016 based upon M&T's and their individual performance, the NCG Committee determined to honor the request of Messrs. Wilmers and Czarnecki that they not be considered for any increase.

## **Consideration of Shareholder Advisory Vote on Executive Compensation**

The NCG Committee views the shareholder vote on executive compensation as an important expression of whether other shareholders agree with the NCG Committee's decisions on how to align compensation with performance, particularly long-term performance. In connection with the shareholder advisory vote at the 2015 Annual Meeting of Shareholders, 98.2% of the shares that were voted on that matter approved of the compensation of the NEOs. The NCG Committee considered this to be a strong indication that other shareholders believe that the NEOs' compensation is aligned with the performance of M&T.



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### **Components of Executive Compensation**

Consistent with M&T's philosophy of aligning NEO compensation with the interests of shareholders, the NCG Committee historically tended to award a relatively higher percentage of compensation in the form of equity-based compensation than members of the peer group.

Based on the analysis performed by the NCG Committee's compensation consultant in 2015 (for compensation paid during the 2014 performance year), the aggregate total compensation (total cash compensation plus equity-based compensation or other long-term incentives) of the NEOs, other than Messrs. Wilmers and Gold, was approaching, or slightly above, the aggregate medians for comparable executives employed by the members of the peer group. Mr. Wilmers' total compensation was in the bottom quartile of comparable executives employed by members of the peer group. Mr. Gold's total compensation was between the 50<sup>th</sup> and 75<sup>th</sup> percentile of comparable executives employed by members of the peer group. In determining the appropriate level of compensation for the NEOs, the NCG Committee focused on the total compensation of comparable positions within the peer group. We provide a brief explanation of the factors used to determine each component of the NEOs' compensation in the sections that follow.

### ***Salaries***

Base salaries of the NEOs are determined by the NCG Committee based on a number of factors, including the scope of the executive's responsibilities, historical base salaries of comparable executives employed by members of the peer group, and past and expected future contributions.

### ***2016 Salary Determinations***

The NCG Committee made base salary determinations for 2016 for the NEOs in January 2016. Given M&T's performance in 2015, compared to both that of the peer group and its business plan, the individual performance of each of the NEOs as discussed above, and the completion of the merger and forthcoming integration of Hudson City, the NCG Committee determined that the total compensation of Messrs. Jones, Pearson and Gold should be increased for 2016. As discussed above, the NCG Committee determined that the total compensation of Messrs. Wilmers and Czarnecki would remain flat for 2016 and, as such, determined that their cash salaries should remain unchanged for 2016. Considering the mix of desired compensation, individual performance and the information about the relative compensation levels at the peer group, the NCG Committee determined that the respective cash salaries for the other NEOs should be increased as follows: Mr. Jones - \$25,000; Mr. Pearson - \$50,000; and Mr. Gold - \$50,000.

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*2015 Salary Determinations*

The NCG Committee made base salary determinations for 2015 for the NEOs in January 2015. Given M&T's performance in 2014, compared to both that of the peer group and its business plan, the individual performance of each of the NEOs as discussed above, and the increased responsibilities assumed by Messrs. Jones, Pearson and Gold, the NCG Committee determined that the total compensation of Messrs. Jones, Pearson and Gold should be increased and that the total compensation of Messrs. Wilmers and Czarnecki should remain flat for 2015. Considering the mix of compensation desired for the NEOs, the performance of each NEO and information about relative compensation levels at the peer group, the NCG Committee determined that the respective cash salaries should be increased as follows: Mr. Jones - \$75,000; Mr. Pearson - \$50,000; and Mr. Gold - \$25,000. The cash salaries of Messrs. Wilmers and Czarnecki were not changed for 2015.

***Incentive Compensation***

Consistent with the objective of linking compensation to M&T's performance for the benefit of M&T's shareholders, in determining annual cash incentive and equity awards, the NCG Committee has historically assessed the following factors, without assigning specific weighting to any single factor:

M&T's current and past performance compared to its business plan and other qualitative and quantitative factors;

M&T's performance compared to the peer group used for performance purposes;

the NEO's individual performance, as discussed above;

risk management and adherence to M&T's risk appetite;

with respect to equity awards, dilution and the market value of the common stock;

compensation information with respect to the compensation peer group; and

M&T's future prospects.

***Annual Cash Incentives***

The NEOs participate in the Annual Executive Incentive Plan, which plan provides for discretionary grants of cash awards to the NEOs as determined by the NCG Committee.

*2015 Cash Incentive Award Determinations*

Due to the discretionary structure of the Annual Executive Incentive Plan, the NEOs do not have, and historically have not had, target levels of awards or stated goals and payout levels under that plan. Consequently, the NCG Committee considered the following factors in making the cash incentive awards in January 2016: (i) the performance of M&T during 2015 relative to its business plan and relative to the peer group for performance purposes; (ii) the contribution of each of the NEOs to that performance; (iii) effective risk management and adherence to M&T's risk appetite; and (iv) the performance of Messrs. Jones, Pearson and Gold in fulfilling their expanded roles, including efforts related to the merger with Hudson City. Based upon an evaluation of these factors, the NCG Committee determined that it was appropriate to award each of the NEOs a cash incentive under the Annual Executive Incentive Plan for 2015 performance as follows: each of Messrs. Wilmers and Czarnecki - \$425,000 (which, as discussed above, was unchanged from the prior year award); Mr. Pearson - \$500,000 (a \$100,000 increase from the prior year award); Mr. Jones - \$475,000 (a \$100,000 increase from the prior year award); and Mr. Gold - \$475,000 (a \$75,000 increase from the prior year award).

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***Equity-Based Incentives***

Also consistent with its philosophy of linking compensation to M&T's performance for the benefit of M&T's shareholders, M&T provides long-term incentive opportunities to its executive officers through discretionary grants of equity-based compensation under the M&T Bank Corporation 2009 Equity Incentive Compensation Plan ( "Equity Incentive Compensation Plan" ). The NCG Committee determines the dollar value of equity awards to be made to the NEOs at its meeting in January of each year. Following that meeting, the equity awards are granted on the last business day of January. In making grants of equity awards, the NCG Committee generally assesses the following factors over a three-year period or longer:

- The performance of M&T relative to prior years; and
- The performance of M&T for the immediately preceding year relative to its business plan and the peer group used for performance purposes.

***Stock Options***

Management and the NCG Committee historically believed that stock options were an effective long-term incentive because the holder could profit only if the value of M&T common stock increased. In the past, M&T utilized incentive stock options that complied with Section 422 of the Internal Revenue Code, to the maximum extent permitted. In making such awards in the past, the NCG Committee concluded that the potential tax advantages available to the NEOs with incentive stock options increased the likelihood that a NEO would hold the stock received upon exercise of a stock option. Typically, stock options vested over a four-year period, with 10% vesting one year after the date of grant, an additional 20% vesting two years after the date of grant, an additional 30% vesting three years after the date of grant, and the remaining 40% vesting four years after the date of grant. M&T has not granted stock options to any NEO or any member of Management Group since 2009.

***Restricted Stock and Restricted Stock Units***

Management and the NCG Committee believe that restricted stock and restricted stock units to be settled in stock also provide an effective long-term incentive because the value of the award can be further enhanced if the value of the common stock increases from the date of grant to the date restrictions lapse. The restrictions on awards of restricted stock or restricted stock units granted prior to 2014 will lapse based on the same service-based vesting schedule used for stock options. Restrictions on awards of restricted stock or restricted stock units made beginning in January 2014 will lapse on a pro-rata basis over three years. The restricted stock will receive dividends if and when dividends are paid on M&T common stock and will have voting rights during the restricted period. The restricted stock units will receive dividend equivalent payments if and when dividends are paid on the M&T common stock but they do not have voting rights during the restricted period. Beginning in 2009, for tax reasons, the NCG Committee determined to award restricted stock units to be settled in M&T common stock as a substitute for awards of restricted stock to employees who are eligible for retirement under the Qualified Pension Plan.

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**Table of Contents***Performance-Based Restricted Stock Units*

As discussed above, beginning in January 2014, M&T began awarding all equity-based compensation for the NEOs in the form of performance-based restricted stock units. The restrictions on the awards of such performance-based restricted stock units will lapse equally over a three-year vesting period beginning from the date of grant if the ROTCE hurdle rate established by the NCG Committee prior to the annual grant date is met or exceeded for each vesting period. The performance-based restricted stock units will receive dividend equivalent payments if and when dividends are paid on the common stock, but they do not have voting rights during the restricted period.

*2016 Equity Awards*

The NCG Committee granted equity awards to the NEOs in 2016 based on the assessment criteria discussed above in the form of performance-based restricted stock units. The aggregate value of the long-term performance-based restricted stock units awarded to each NEO was: Messrs. Wilmers and Czarnecki - \$1,675,000; Mr. Pearson - \$1,275,000; and each of Messrs. Jones and Gold - \$1,200,000. As discussed above, for Messrs. Wilmers and Czarnecki, these equity awards were unchanged from 2015, while Mr. Pearson received an increase of \$100,000 and Messrs. Jones and Gold each received an increase of \$25,000.

The performance-based long-term stock awards were in the form of restricted stock units to be settled in stock, and were granted on January 29, 2016 in accordance with the Equity Incentive Compensation Plan. The restricted stock units granted on January 29, 2016 will be settled in M&T common stock on a pro-rata basis over the three years following the grant date. All such restricted stock units will generally be settled in M&T common stock upon the death or disability of a NEO, or upon a change-in-control of M&T. In the event of retirement, however, the settlement is contingent upon the achievement of the performance requirement for the performance period in which retirement occurs. The awards of restricted stock units granted on January 29, 2016 will be entitled to the receipt of any dividend equivalents paid on stock units.

*2015 Equity Awards*

The NCG Committee granted equity awards to the NEOs in 2015 based on the assessment criteria discussed above in the form of performance-based restricted stock units. The aggregate value of the long-term performance-based restricted stock units awarded to each of Messrs. Wilmers and Czarnecki was \$1,675,000, and \$1,175,000 was awarded to each of Messrs. Jones, Pearson and Gold. For Messrs. Wilmers, Czarnecki, Jones and Pearson, these equity awards were unchanged from 2014, while Mr. Gold received an increase of \$375,000. The total compensation opportunity for each NEO in 2015, when compared to the total compensation opportunity in 2014, resulted in no increase for each of Messrs. Wilmers and Czarnecki, increases of 7% for each of Messrs. Jones and Pearson, and a 22% increase for Mr. Gold.

The performance-based long-term stock awards were in the form of restricted stock units to be settled in stock, and were granted on January 30, 2015 in accordance with the Equity Incentive Compensation Plan, the material terms of which were approved by M&T's shareholders in 2015. The restricted stock units granted on January 30, 2015 will be settled in stock on a pro-rata basis over the three years following the grant date. All such restricted stock units will

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generally be settled in stock upon retirement, death or disability of a NEO, or upon a change-in-control of M&T. The awards of restricted stock units granted on January 30, 2015 will be entitled to the receipt of any dividend equivalents paid on stock units.

The supplemental table below shows the mix of annual base salary, annual cash incentives and equity awards approved by the NCG Committee for each NEO in January 2016:

**Summary of 2016 Executive Compensation Determinations**

Named Executive Officer	Bonus Paid in 2016			Total 2016 Compensation Opportunity
	2016 Base Salary	for 2015 Performance	2016 Equity Awards	
Robert G. Wilmers	\$ 950,000	\$ 425,000	\$ 1,675,000	\$ 3,050,000
René F. Jones	\$ 725,000	\$ 475,000	\$ 1,200,000	\$ 2,400,000
Mark J. Czarnecki	\$ 900,000	\$ 425,000	\$ 1,675,000	\$ 3,000,000
Kevin J. Pearson	\$ 725,000	\$ 500,000	\$ 1,275,000	\$ 2,500,000
Richard S. Gold	\$ 725,000	\$ 475,000	\$ 1,200,000	\$ 2,400,000

***Perquisites and Other Personal Benefits***

Generally, M&T provides limited perquisites to its NEOs. The perquisites that are provided are designed to assist a NEO in being productive and are limited to those that management and the NCG Committee believe are consistent with our overall compensation program. Given the importance of developing business relationships for our success, our NEOs are reimbursed for certain initiation fees and dues they incur for club memberships deemed advisable for business purposes.

***Retirement and Other Benefits***

M&T maintains two tax-qualified retirement plans for its employees, one a defined benefit plan and the other a defined contribution plan. Each of the NEOs participates in the defined benefit plan, except for Mr. Jones, who elected to have his benefit under the defined benefit plan frozen as of December 31, 2005, and to earn future benefits under the defined contribution plan. Mr. Jones made his election pursuant to a one-time election that was offered to all participants in the defined benefit plan in late 2005 to remain in the defined benefit plan and earn future benefits under a new reduced benefit formula or to retain the frozen benefit in the defined benefit plan and earn future benefits under a new defined contribution plan beginning January 1, 2006.

In addition, M&T maintains nonqualified defined benefit and defined contribution retirement plans to supplement retirement benefits for the NEOs in order to make up for benefits that cannot otherwise be provided in the qualified plan due to Internal Revenue Service limits, however, total compensation recognized for this purpose is capped at \$350,000. The nonqualified plans are not funded, except as benefits are actually paid to executive officers upon retirement. Additional information regarding these retirement plans and arrangements is provided in the sections titled Pension Benefits and Nonqualified Deferred Compensation.

M&T does not believe it is appropriate to provide the NEOs with severance packages beyond what is provided to employees of M&T generally. Consequently, the NEOs have



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historically participated in the M&T Bank Corporation Severance Pay Plan (the "Severance Pay Plan"), which provides for post-employment severance payments that are tiered based upon an employee's position and years of service, and the continuation of certain employee benefits. Upon a "Qualifying Event" (defined in the Severance Pay Plan as any permanent, involuntary termination of a participant's active employment as a result of a reduction in force, restructuring, outsourcing or elimination of position), a NEO would be entitled to benefits under the Severance Pay Plan.

Other than benefits that are generally available to employees, M&T does not maintain any individual severance or change-in-control arrangements. M&T's compensation plans do not contain payments or benefits to NEOs that are specifically triggered by a change-in-control, except that M&T's various equity-based compensation plans provide that, upon a change-in-control, all employees, including the NEOs, would become fully vested in any outstanding awards that were not already vested. M&T has elected to provide such acceleration because of a belief that the principal purpose of providing executive officers and other employees with equity incentives is to align their interests with those of M&T's shareholders and that this alignment should be enhanced, not weakened, in the context of a change-in-control. Accelerating the vesting of equity-based compensation upon a change-in-control allows employees the same opportunity as other shareholders to sell shares freely following the completion of the transaction and realize the economic benefits of such transaction, without forcing them to be exposed to the post-closing performance of the acquirer.

## **Tax Matters**

Section 162(m) and related regulations generally impose a \$1 million cap on the deductibility of compensation paid to certain executive officers of a publicly held corporation, subject to certain exceptions. One exception is for performance-based compensation paid under shareholder approved plans. The executive officers to whom Section 162(m) applies includes M&T's Chief Executive Officer and the next three most highly compensated executive officers (other than the chief financial officer). The performance-based restricted stock units that were awarded to Messrs. Wilmers, Czarnecki, Pearson and Gold in January 2016 and 2015 are intended to be deductible under Section 162(m) pursuant to the performance-based compensation exception. The Section 162(m) Cash Incentive Program established by the NCG Committee in 2015 is also intended to be structured to provide for payments to the NEOs (except for Mr. Jones) that would be deductible under Section 162(m) pursuant to this exception. While the NCG Committee considers the desirability of limiting M&T's non-deductible expenses as one factor when it makes compensation determinations, the NCG Committee believes in preserving its ability to award compensation to the NEOs that is not deductible under Section 162(m) for competitive purposes when it is in the best interests of M&T.



**Table of Contents****NOMINATION, COMPENSATION AND GOVERNANCE COMMITTEE REPORT**

The Nomination, Compensation and Governance Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of SEC Regulation S-K with management. Based on such review and discussions, the Nomination, Compensation and Governance Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

This report was adopted on February 17, 2016 by the Nomination, Compensation and Governance Committee of the Board of Directors:

Brent D. Baird, Chairman

Robert T. Brady

Gary N. Geisel

**EXECUTIVE COMPENSATION**

The following table contains information concerning the compensation of M&T's NEOs in the fiscal years ended December 31, 2015, 2014, and 2013.

**2015 Summary Compensation Table**

Name and Principal Position	Yr.	Salary (\$)	Bonus (\$)	Stock Awards <sup>(1)</sup> (\$)	Option Awards (\$)	Plan Comp. (\$)	Change in Pension Non- Value and Equity Non- In- Qualified centive Deferred	All Other Comp. <sup>(3)</sup> (\$)	Total (\$)
							Comp. Earnings <sup>(2)</sup> (\$)		
Robert G. Wilmers Principal Executive Officer	2015	\$ 950,000	\$ 425,000	\$ 1,675,107	\$ -	\$ -	\$ 460,688	\$ 184,655 <sup>(4)</sup>	\$ 3,695,450
	2014	950,000	425,000	1,675,103	-	-	989,767	183,549	4,223,419 <sup>(9)</sup>
	2013	950,000	425,000	1,905,000	-	-	226,467	167,756	3,674,223
René F. Jones	2015	\$ 700,000	\$ 475,000	\$ 1,175,053	\$ -	\$ -	\$ 0	\$ 136,898 <sup>(5)</sup>	\$ 2,486,951

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Principal Financial Officer	2014	625,000	375,000	1,175,092	-	-	56,870	129,914	2,361,876 <sup>(9)</sup>
	2013	600,000	300,000	1,303,000	-	-	-	117,276	2,320,276
Mark J. Czarnecki President and Chief Operating Officer	2015	\$ 900,000	\$ 425,000	\$ 1,675,107	\$ -	\$ -	\$ 57,630	\$ 247,787 <sup>(6)</sup>	\$ 3,305,524
	2014	900,000	425,000	1,675,103	-	-	342,579	168,847	3,511,529 <sup>(9)</sup>
	2013	900,000	425,000	1,940,000	-	-	-	158,993	3,423,993
Kevin J. Pearson Executive Vice President	2015	\$ 675,000	\$ 500,000	\$ 1,175,053	\$ -	\$ -	\$ 32,680	\$ 114,903 <sup>(7)</sup>	\$ 2,497,636
	2014	625,000	400,000	1,175,092	-	-	228,325	112,887	2,541,304 <sup>(9)</sup>
	2013	600,000	300,000	1,275,000	-	-	-	103,652	2,278,652
Richard S. Gold EVP and Chief Risk Officer	2015	\$ 675,000	\$ 475,000	\$ 1,175,053	\$ -	\$ -	\$ 36,809	\$ 101,362 <sup>(8)</sup>	\$ 2,463,224
	2014	650,000	400,000	800,084	-	-	208,484	91,851	2,150,419 <sup>(9)</sup>
	2013	-	-	-	-	-	-	-	-

- (1) The amounts indicated represent the aggregate grant date fair value of equity awards granted to each of the NEOs. The grant date fair values are calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation - Stock Compensation ( FASB ASC Topic 718 ).
- (2) This column includes the aggregate positive change in actuarial present value of each NEO's accumulated benefit under the Qualified Pension Plan and Supplemental Pension Plan. In accordance with SEC rules, to the extent the aggregate change in present value of all defined benefit plans for a particular fiscal year

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would have been a negative amount, the amount has instead been reported as \$0 and the aggregate compensation for the NEO in the Total column has not been adjusted to reflect the negative amount. The aggregate negative change in the present value of the non-qualified deferred compensation plan and pension and retirement benefits for certain NEOs in 2015 was as follows: Mr. Jones (\$3,533). The assumptions used to calculate the present value of accumulated benefits are the same as those used for Financial Accounting Standards Board Accounting Standards Codification Topic 715, Compensation-Retirement Benefits ( FASB ASC Topic 715 ) financial statement disclosure purposes, except that no pre-retirement decrements are assumed. The present value of accrued benefits as of December 31, 2015 is calculated assuming the executive commences his accrued benefit earned through December 31, 2015 at normal retirement age. For the December 31, 2015 and 2014 calculations, the mortality assumption beginning at normal retirement age is based upon the Pension Plan Mortality Table ( RP-2014 ) and generational projection using Mortality Improvement Scale ( MP-2014 ) that were released by the Society of Actuaries in 2014. For the December 31, 2013 calculations, the mortality assumption beginning at normal retirement age is based on the Pension Protection Act of 2006 prescribed static mortality table as applicable for 2014.

The discount rate assumption is 4.75% for the December 31, 2013 calculations, 4.00% for the December 31, 2014 calculations and 4.25% for the December 31, 2015 calculations.

Normal retirement age is age 65 for all participants. Mr. Wilmers is older than age 65; therefore, he is assumed to retire at his current age. It is assumed that the participants will elect the single life annuity form.

- (3) This column includes for each NEO: (i) an \$11,925 contribution in 2015 to the Retirement Savings Plan, a qualified defined contribution plan; and (ii) a \$3,825 credit under the M&T Bank Corporation Supplemental Retirement Savings Plan (the Supplemental Retirement Savings Plan ). It also includes, for Mr. Jones: (i) a \$13,250 contribution to the Retirement Accumulation Account portion of the Retirement Savings Plan, a qualified defined contribution plan; and (ii) a \$4,250 credit under the Supplemental Retirement Accumulation Account portion of the Supplemental Retirement Savings Plan earned in 2015. It also includes the following insurance premiums paid in 2015 in respect of term life insurance for the benefit of each of the NEOs: Mr. Wilmers - \$10,506; Mr. Jones - \$2,622; Mr. Czarnecki - \$7,524; Mr. Pearson - \$2,622; and Mr. Gold - \$1,419. It further includes dividends and dividend equivalents on unvested restricted stock and restricted stock units for 2015, 2014 and 2013 as follows: Mr. Wilmers - \$116,575; Mr. Jones - \$80,564; Mr. Czarnecki - \$115,497; Mr. Pearson - \$81,056; and Mr. Gold - \$62,298.
- (4) Perquisites for Mr. Wilmers included club membership dues and expenses, parking, meals and expenses associated with an apartment in Buffalo, New York. No perquisite exceeded the greater of \$25,000 or 10% of the total perquisites provided to Mr. Wilmers.
- (5) Perquisites for Mr. Jones included club membership dues and expenses, tax preparation expenses, parking and meals. No perquisite exceeded the greater of \$25,000 or 10% of the total perquisites provided to Mr. Jones.

- (6) Perquisites for Mr. Czarnecki included club membership dues and expenses, tax preparation expenses, parking, meals and travel for medical care. In 2015, Mr. Czarnecki had expenses paid associated with travel for medical care in the amount of \$70,485 and had country club membership dues paid in the amount of \$26,791; no other perquisite exceeded the greater of \$25,000 or 10% of the total perquisites provided to Mr. Czarnecki.
- (7) Perquisites for Mr. Pearson included tax preparation expenses, parking and meals. No perquisite exceeded the greater of \$25,000 or 10% of the total perquisites provided to Mr. Pearson.
- (8) Perquisites for Mr. Gold included club membership dues and expenses, tax preparation expenses, parking and meals. No perquisite exceeded the greater of \$25,000 or 10% of the total perquisites provided to Mr. Gold.
- (9) In 2014, the total compensation of M&T's NEOs was impacted by certain changes in the assumptions underlying the calculation of the change in pension value and nonqualified deferred compensation earnings, including new mortality tables as set forth in more detail in footnote (2).

Table of Contents**Grants of Plan-Based Awards**

The following table reflects the terms of compensation plan-based awards granted to the NEOs in 2015.

**2015 Grants of Plan-Based Awards**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$)			Estimated Future Payouts Under Equity Incentive Plan Awards (#)			All Other Stock Awards: Number of Shares or Units	All Other Option Awards: Exercise Price of Securities or Base Price of Option	Grant Date Fair Value of Stock and Option Awards <sup>(1)</sup>	
		Threshold	Target	Max.	Threshold	Target	Max.				
Robert G. Wilmers	1/30/15	\$ -	\$ -	\$ -	-	-	-	14,803	-	\$ -	\$1,675,107 <sup>(2)</sup>
René F. Jones	1/30/15	\$ -	\$ -	\$ -	-	-	-	10,384	-	\$ -	\$1,175,053 <sup>(3)</sup>
Mark J. Czarnecki	1/30/15	\$ -	\$ -	\$ -	-	-	-	14,803	-	\$ -	\$1,675,107 <sup>(2)</sup>
Kevin J. Pearson	1/30/15	\$ -	\$ -	\$ -	-	-	-	10,384	-	\$ -	\$1,175,053 <sup>(2)</sup>
	1/30/15	\$ -	\$ -	\$ -	-	-	-	10,384	-	\$ -	\$1,175,053 <sup>(2)</sup>

Richard S.  
Gold

- (1) The amounts indicated represent the aggregate grant date fair value of equity awards granted to each of the NEOs in 2015. The grant date fair values are calculated in accordance with FASB ASC Topic 718.
- (2) Vesting of the stock awards granted to Messrs. Wilmers, Czarnecki, Pearson and Gold in 2015 occurs on a graduated basis with 33% vesting on January 30, 2016, an additional 33% vesting on January 30, 2017 and the remaining 34% vesting on January 30, 2018. Each vesting is contingent upon M&T Bank Corporation achieving a pre-established net operating return on tangible common equity metric (the Performance Requirement ). If the Performance Requirement is not satisfied for a given period, the portion of the stock award that is scheduled to vest on the vesting date immediately following that performance period will not vest and will be forfeited unless otherwise determined by the NCG Committee. The Equity Incentive Compensation Plan allows for accelerated vesting in cases of death, disability, retirement or a change-in-control. In the case of the stock awards granted to Messrs. Wilmers, Czarnecki, Pearson and Gold in 2015, termination of employment as a result of death, disability or change-in-control results in immediate vesting of any unvested portion of the award. Termination of employment as a result of retirement also results in accelerated vesting of any unvested portion of the award on the next scheduled vesting date, but only if the Performance Requirement is met for the performance period in which retirement occurs. If the Performance Requirement is not met for the performance period in which retirement occurs, the portion of the stock award that is scheduled to vest on the vesting date immediately following that performance period will not vest and will be forfeited unless otherwise determined by the NCG Committee. The portion of the stock award that is scheduled to vest in any performance period following retirement will vest if the Performance Requirement is met for that performance period, or, if the Performance Requirement is not met for that performance period, will not vest and will be forfeited unless otherwise determined by the NCG Committee.
- (3) Vesting of the stock awards granted to Mr. Jones in 2015 occurs on a graduated basis with 33% vesting on January 30, 2016, an additional 33% vesting on January 30, 2017 and the remaining 34% vesting on January 30, 2018. Each vesting is contingent on M&T achieving a pre-established return on tangible common equity. If the Performance Requirement is not satisfied for a given period, the portion of the stock award that is scheduled to vest on the vesting date immediately following that performance period will not vest and will be forfeited unless otherwise determined by the NCG Committee. The Equity Incentive Compensation Plan allows for accelerated vesting in cases of death, disability, retirement or a change-in-control.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following table reflects the number and terms of stock option awards and stock awards outstanding as of December 31, 2015 for the NEOs.

**Outstanding Equity Awards at 2015 Fiscal Year-End**

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(1)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (\$)	Equity Incentive Plan Awards: Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Robert G. Wilmers						41,556	\$ 5,035,756	\$ -	\$ -
René F. Jones	13,168	-	-	\$ 108.93	1/17/16				
	15,740	-	-	121.31	1/31/17				
	28,392	-	-	91.28	1/31/18	28,802	\$ 3,490,226	\$ -	\$ -
Mark J. Czarnecki	36,225	-	-	\$ 108.93	1/17/16				
	52,466	-	-	121.31	1/31/17				
	94,638	-	-	91.28	1/31/18	41,304	\$ 5,005,219	\$ -	\$ -
Kevin J. Pearson	27,982	-	-	\$ 121.31	1/31/17				
	50,474	-	-	91.28	1/31/18				
	12,942	-	-	\$ 121.31	1/31/17	28,861	\$ 3,497,376	\$ -	\$ -

6,996	-	-	111.34	4/30/17					
23,344			91.28	1/31/18					
					23,006	\$ 2,787,867	\$	-	\$ -

- (1) From 2009 until August 21, 2012, M&T's compensation programs were subjected to certain restrictions on executive compensation pursuant to the rules governing executive compensation applicable to financial institutions that received investments from the U.S. Department of the Treasury pursuant to the Troubled Asset Relief Program ( TARP ). Vesting of the stock awards granted to the NEOs in 2012 and the TARP awards granted to the NEOs in 2013 occurs on a graduated basis with 30% vesting on the second anniversary of the grant date, an additional 30% vesting on the third anniversary of the grant date, and the remaining 40% vesting on the fourth anniversary of the grant date. Vesting of the non- TARP stock awards granted to the NEOs in 2013 occurs on a graduated basis with 10% vesting on the first anniversary of the grant date, an additional 20% vesting on the second anniversary of the grant date, an additional 30% vesting on the third anniversary of the grant date, and the remaining 40% vesting on the fourth anniversary of the grant date. Vesting of the stock awards granted to the NEOs in 2014 occurs on a graduated basis with 33% of the award vesting on the first anniversary of the grant date, an additional 33% of the award vesting on the second anniversary of the grant date, and the remaining 34% of the award vesting on the third anniversary of the grant date. See footnotes (2) and (3) to the table set forth under the section 2015 Grants of Plan-Based Awards for the vesting schedule of the stock awards granted to the NEOs in 2015. See the below chart for more detailed information concerning the number of outstanding shares from each award and their corresponding vesting dates. Note that the Equity Incentive Compensation Plan allows for accelerated vesting in cases of death, disability, retirement or a change-in-control.



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Name	Grant Date	Shares or Units Granted	Shares or Units Not Vested	Remaining Vesting Dates
Robert G. Wilmers	1/31/12	8,152	3,261	1/31/16
	2/29/12	1,226	491	2/29/16
	1/31/13	5,746	1,724	1/31/16
			2,299	1/31/17
	1/31/13	12,806	3,841	1/31/16
			5,122	1/31/17
	1/31/14	15,022	5,007	1/31/16
			5,008	1/31/17
René F. Jones	1/30/15	14,803	4,934	1/31/17
			4,935	1/31/18
	1/31/12	6,271	2,509	1/31/16
	1/31/13	3,701	1,110	1/31/16
			1,481	1/31/17
	1/31/13	8,989	2,697	1/31/16
			3,595	1/31/17
	1/31/14	10,538	3,513	1/31/16
		3,513	1/31/17	
Mark J. Czarnecki	1/30/15	10,384	3,461	1/31/16
			3,461	1/31/17
	1/31/12	8,152	3,261	1/31/16
	1/31/13	5,746	1,724	1/31/16
			2,299	1/31/17
	1/31/13	13,147	3,944	1/31/16
			5,258	1/31/17
	1/31/14	15,022	5,007	1/31/16
		5,008	1/31/17	
Kevin J. Pearson	1/31/14	10,538	4,934	1/31/16
			4,934	1/31/17
	1/30/15	14,803	4,934	1/31/17
			4,935	1/31/18
	1/31/12	6,898	2,760	1/31/16
	1/31/13	3,555	1,067	1/31/16
			1,422	1/31/17
	1/31/13	8,862	2,658	1/31/16
		3,544	1/31/17	
Richard S. Gold	1/31/14	10,538	3,513	1/31/16
			3,513	1/31/17
	1/30/15	10,384	3,461	1/31/16
			3,461	1/31/17
Table of Contents	1/31/12	4,766	1,907	1/31/16
	1/31/13	2,922	877	1/31/16
			1,169	1/31/17
	1/31/13	5,551	1,665	1/31/16

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			2,220	1/31/17
			2,392	1/31/16
1/31/14	7,175		2,392	1/31/17
			3,461	1/31/16
1/30/15	10,384		3,461	1/31/17
			3,462	1/31/18

**Table of Contents****Options Exercised and Stock Vested**

The following table sets forth the number of stock option awards exercised and the value realized upon exercise during 2015 for the NEOs, as well as the number of stock awards vested and the value realized upon vesting.

**2015 Options Exercised and Stock Vested**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise <sup>(1)</sup>	Number of Shares Acquired on Vesting	Value Realized on Vesting
Robert G. Wilmers	-	\$ -	15,114	\$ 1,713,185
René F. Jones	-	\$ -	10,267	\$ 1,161,814
Mark J. Czarnecki	-	\$ -	14,582	\$ 1,650,099
Kevin J. Pearson	21,353	\$ 287,846	10,734	\$ 1,214,659
Richard S. Gold	13,143	\$ 222,668	7,357	\$ 832,518

(1) Based upon the difference between the closing price of M&T's common stock on the NYSE on the date or dates of exercise and the exercise price or prices for the stock options.

**Pension Benefits**

The following table sets forth the present value of the accumulated pension benefits for the NEOs.

**2015 Pension Benefits<sup>(1)</sup>**

Name	Plan Name	Number of Years Credited Service <sup>(3)</sup>	Present Value of Accumulated Benefit	Payments during Last Fiscal Year
Robert G. Wilmers	Qualified Pension Plan <sup>(2)</sup>	32	\$ 3,722,159	\$ -
	Supplemental Pension Plan <sup>(2)(4)</sup>	32	652,474	-
René F. Jones	Qualified Pension Plan <sup>(2)</sup>	13	\$ 202,832	\$ -
Mark J. Czarnecki	Qualified Pension Plan <sup>(2)</sup>	35	\$ 1,199,329	\$ -

	Supplemental Pension Plan <sup>(2)(4)</sup>	35	298,441	-
	Qualified Pension Plan <sup>(2)</sup>	26	\$ 672,331	\$ -
Kevin J. Pearson	Supplemental Pension Plan <sup>(2)(4)</sup>	26	142,208	-
	Qualified Pension Plan <sup>(2)</sup>	26	\$ 622,535	\$ -
Richard S. Gold	Supplemental Pension Plan <sup>(2)(4)</sup>	26	133,319	-

- (1) Please refer to footnote (2) to the 2015 Summary Compensation Table for the assumptions used to calculate the present value of accumulated benefits.
- (2) The Qualified Pension Plan provides tax-qualified pension benefits for a broad base of M&T employees. Effective January 1, 2006, the formula used to calculate benefits under the Qualified Pension Plan and the Supplemental Pension Plan was modified with respect to benefits earned after 2005. Benefits accrued under the prior formula as of December 31, 2005 were frozen and all Qualified Pension Plan participants, including each NEO, were given a one-time election to remain in the Qualified Pension Plan and earn future benefits under a new reduced pension benefit formula, or to retain the frozen benefit in the Qualified Pension Plan and earn future benefits under a new defined contribution program, the Retirement Accumulation Account (the Qualified RAA ), in which qualifying participants are credited a percentage of total pay based on length of service. Under the current formula, each participant s

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retirement benefit equals the sum of (a) the participant's accrued benefit as of December 31, 2005 and (b) for each year of credited service earned after December 31, 2005, the sum of (i) 1% of compensation for the plan year plus (ii) 0.35% of compensation for the plan year in excess of 50% of that year's Social Security wage base. Messrs. Wilmers, Czarnecki, Pearson and Gold elected to remain in the Qualified Pension Plan for periods on and after January 1, 2006. Mr. Jones elected to discontinue his future participation in the Qualified Pension Plan and Supplemental Pension Plan, choosing instead to participate in the Qualified RAA effective January 1, 2006. Mr. Jones has an accrued benefit under the Qualified Pension Plan as of December 31, 2005, but has ceased to earn any benefit accrual service and any further benefit under the Qualified Pension Plan as of January 1, 2006.

- (3) The years of credited service for all of the NEOs are based only on their service while eligible for participation in the Qualified Pension Plan or the prior pension plan of an acquired bank. Generally, a participant must be paid for at least 1,000 hours of work during a plan year to be credited with a year of service for purposes of the Qualified Pension Plan.
- (4) As described in footnote (2) above, effective January 1, 2006, the formula used to calculate benefits under the Qualified Pension Plan and the Supplemental Pension Plan was modified with respect to benefits earned after 2005, and participants were given the opportunity to elect whether to continue participation in the Qualified Pension Plan and the Supplemental Pension Plan. Of the NEOs, Messrs. Wilmers, Czarnecki, Pearson and Gold elected to continue to participate in the revised Qualified Pension Plan and, as such, they continue to be participants in the Supplemental Pension Plan. Mr. Jones elected to discontinue his future participation in the Qualified Pension Plan and Supplemental Pension Plan, choosing instead to participate in the Qualified RAA effective January 1, 2006. M&T maintains a defined contribution nonqualified Retirement Accumulation Account that is designed to provide participants with contributions that cannot be provided under the Qualified Retirement Accumulation Account because of applicable federal income tax limits. As under the Supplemental Pension Plan, creditable compensation under the Supplemental RAA is also limited to \$350,000. Mr. Jones participated in the Supplemental RAA in 2015 and was credited with a contribution for 2015 as reported below under the discussion of 2015 Nonqualified Deferred Compensation Plans.

**Explanation of Pension Benefits Table**

The Pension Benefits Table indicates, for each of the Qualified Pension Plan and the Supplemental Pension Plan, the NEO's number of years of credited service, present value of accumulated benefit and any payments made during the year ended December 31, 2015.

The amounts indicated in the column titled "Present Value of Accumulated Benefit" represent the lump-sum value as of December 31, 2015 of the annual benefit that was earned by the NEOs as of December 31, 2015, assuming payment begins at each executive's normal retirement age, or their current age, if later. The normal retirement age is defined as age 65 in the Qualified Pension Plan and the Supplemental Pension Plan. Certain assumptions were used to determine the present value of accumulated benefits payable at normal retirement age. Those assumptions are described in footnote (2) to the 2015 Summary Compensation Table. Certain material terms of each of the Qualified Pension Plan and the Supplemental Pension Plan are summarized in the footnotes to the Pension Benefits Table and in the narrative below.

**Qualified Pension Plan**

Benefits under the Qualified Pension Plan are paid over the lifetime of the NEO or the lifetimes of the NEO and a beneficiary, as elected by the NEO. If the NEO is married on the date payments are to begin under the Qualified Pension Plan, payment will be in the form of a joint and 50% survivor annuity with the spouse as beneficiary unless the NEO elects another form of payment with the consent of the spouse. None of the NEOs are eligible to elect to receive the

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benefit due under the Qualified Pension Plan in the form of a one-time lump sum payment. If benefits are paid in a form in which a benefit is to be paid to a beneficiary after the death of the NEO, benefits are reduced from the amount payable as a lifetime benefit solely to the NEO in accordance with the actuarial factors that apply to all participants in the Qualified Pension Plan. A participant's benefit under the Qualified Pension Plan is generally payable as an annuity with monthly benefit payments unless the present value of the normal retirement benefit is less than \$5,000. Benefits under the Qualified Pension Plan are funded by an irrevocable, tax-exempt trust. The Qualified Pension Plan benefits of all participants, including those benefits of NEOs, are payable from the assets held by the tax-exempt trust.

Creditable compensation under the Qualified Pension Plan generally includes the compensation reported on Form W-2 in the box for wages, tips and other compensation plus pre-tax salary reduction contributions under the Retirement Savings Plan and the M&T Bank Corporation Flexible Benefits Plan. In calculating a participant's benefit, annual compensation in excess of a limit set annually by the Secretary of the Treasury may not be considered.

A participant is eligible for early retirement under the Qualified Pension Plan if the participant retires before normal retirement age but after attaining age 55 and completing 10 years of service. An early retirement benefit is reduced 4% per year for each year that the benefit commences prior to normal retirement age. At December 31, 2015, Messrs. Jones and Pearson were not eligible for early retirement.

Benefits under the Qualified Pension Plan are 100% vested after an employee has completed at least five years of service, and each NEO is 100% vested in his benefits in the Qualified Pension Plan.

## **Supplemental Pension Plan**

The Supplemental Pension Plan provides a benefit that is equal to the difference between the pension benefit that would be provided under the Qualified Pension Plan if that plan were not subject to certain limits imposed by the Internal Revenue Code, and the benefit actually provided under the Qualified Pension Plan. Creditable compensation that may be considered under the Supplemental Pension Plan formula is limited to \$350,000.

Generally, benefits under the Supplemental Pension Plan are paid over the lifetime of the NEO or the lifetimes of the NEO and a beneficiary, as elected by the NEO. The Supplemental Pension Plan allows a NEO to elect to receive the benefit due under the plan in the form of a one-time lump sum payment. If benefits are paid as a lump sum payment, benefits are adjusted from the amount payable as a lifetime benefit solely to the NEO in accordance with the actuarial factors that apply to all participants in the Qualified Pension Plan.

The pension benefit under the Supplemental Pension Plan is reduced in the same manner as under the Qualified Pension Plan if it begins to be paid before normal retirement age and continues to accrue in the same manner as under the Qualified Pension Plan if it begins to be paid after the normal retirement age.

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Service is determined under the Supplemental Pension Plan in the same manner as under the Qualified Pension Plan, as described above. The vesting schedule in the Supplemental Pension Plan is the same as in the Qualified Pension Plan and all of the NEOs are 100% vested in their benefits in the Supplemental Pension Plan.

**Nonqualified Deferred Compensation**

The following table sets forth contributions, earnings and year-end balances for 2015 with respect to nonqualified deferred compensation plans for the NEOs.

**2015 Nonqualified Deferred Compensation**

Name	Plan Name	Executive	Registrant	Aggregate	Aggregate	Aggregate
		Contributions	Contributions	Earnings in	Withdrawals/	Balance
		in Last	in Last	Last	Distributions	at
		FY <sup>(1)</sup>	FY <sup>(2)</sup>	FY <sup>(3)</sup>		Last FYE <sup>(4)</sup>
Robert G. Wilmers	Supplemental 401(k)	\$ 10,500	\$ 3,825	\$ (8,979)	\$ -	\$ 719,043
	Supplemental RAA	-	-	-	-	-
	Deferred Bonus Plan	-	-	-	-	-
René F. Jones	Supplemental 401(k)	\$ 70,000	\$ 3,825	\$ (5,016)	\$ -	\$ 342,389
	Supplemental RAA	-	4,250	(119)	-	51,279
	Deferred Bonus Plan	-	-	-	-	-
Mark J. Czarnecki	Supplemental 401(k)	\$ 10,500	\$ 3,825	\$ (942)	\$ -	\$ 286,273
	Supplemental RAA	-	-	-	-	-
	Deferred Bonus Plan	-	-	-	-	-
Kevin J. Pearson	Supplemental 401(k)	\$ 10,500	\$ 3,825	\$ (2,481)	\$ -	\$ 206,148
	Supplemental RAA	-	-	-	-	-
	Deferred Bonus Plan	-	-	-	-	-
Richard S. Gold	Supplemental 401(k)	\$ 10,500	\$ 3,825	\$ (2,966)	\$ -	\$ 172,219
	Supplemental RAA	-	-	-	-	-
	Deferred Bonus Plan	-	-	(189)	20,106	60,130

(1) The Supplemental 401(k) contributions were based on the NEOs' deferral elections and the salaries shown in the Summary Compensation Table. The salaries in the Summary Compensation Table include these contributions.

(2) This column represents M&T matching contributions attributable to contributions made to the Supplemental 401(k) during 2015 by the NEOs and contributions by M&T to the Supplemental RAA attributable to 2015 based on compensation earned and service performed during the year. The contribution by M&T to the Supplemental 401(k) and the Supplemental RAA attributable to 2015 was made after December 31, 2015 and is not reflected in the aggregate year-end balance for each NEO. These values are also reflected in the All Other Compensation column of the 2015 Summary Compensation Table.



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- (3) This column reflects earnings or losses on plan balances in 2015. Earnings may increase or decrease depending on the performance of the elected investment options. Earnings on these plans are not above-market and thus are not reported in the 2015 Summary Compensation Table. Plan balances may be invested in various mutual funds and common stock. Investment returns on those funds and common stock ranged from -9.52% to 11.97% for the year ended December 31, 2015.
- (4) This column represents the year-end balances of the NEOs' nonqualified deferred compensation accounts. These balances include NEOs' and M&T contributions that were included in the Summary Compensation Tables in previous years. Amounts in this column include earnings that were not previously reported in the respective year's Summary Compensation Table because they were not above-market earnings.

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**Overview of Nonqualified Deferred Compensation Plans**

M&T maintains two nonqualified deferred compensation plans: the Supplemental Retirement Savings Plan and the M&T Bank Corporation Deferred Bonus Plan. The Deferred Bonus Plan was frozen effective January 1, 2010.

The Supplemental Retirement Savings Plan mirrors the tax-qualified, defined contribution Retirement Savings Plan maintained by M&T in that it consists of two parts: a Supplemental 401(k) Plan and a Supplemental Retirement Accumulation Account Plan. The tax-qualified Retirement Savings Plan provides benefits under both portions up to the limit set by the Internal Revenue Code on compensation that can be recognized under a tax-qualified plan. The Supplemental Retirement Savings Plan provides unfunded, nonqualified benefits to select management based on compensation in excess of the Internal Revenue Code limit for tax-qualified plans up to a maximum creditable compensation level of \$350,000.

Under the tax-qualified 401(k) (or Qualified 401(k) Plan) portion of the Retirement Savings Plan, a participant may elect to contribute up to 50% of creditable plan compensation, in which event, the participant will be credited with a matching employer contribution equal to 100% of contributions that do not exceed 3% of the participant's contributions plus 50% of the contributions that exceed 3% but not 6% of the participant's compensation under the plan. All participants are always 100% vested in all contributions in the Qualified 401(k) Plan. All NEOs participate in the Qualified 401(k) Plan.

Under the tax-qualified Retirement Accumulation Account ( Qualified RAA ) of the Retirement Savings Plan, a participant will be credited with an employer contribution based on the participant's years of service recognized under the plan for each year in which the participant is credited with at least 1,000 hours of service and is employed by M&T on December 31st of such year (or for such years where employment was terminated during the year due to retirement, death or disability). Benefits under the Qualified RAA are subject to a five-year cliff vesting schedule. As explained in the discussion of the 2015 Pension Benefits table, Mr. Jones is the only NEO who participates in the Qualified RAA, and he is fully vested in the benefits under the plan based on his years of service.

The Deferred Bonus Plan was frozen effective January 1, 2010 and does not allow any new deferrals of bonuses into that plan. Prior to January 1, 2010, the Deferred Bonus Plan allowed select members of management and highly compensated employees of M&T to defer all or a portion of an annual bonus they received under an M&T bonus or incentive plan.

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***Supplemental Retirement Savings Plan - Supplemental 401(k) Plan***

The Supplemental 401(k) Plan provides unfunded, nonqualified benefits to select members of management and highly compensated employees of M&T. All of the NEOs participate in the Supplemental 401(k) Plan.

For a given year, a participant may elect to contribute up to 50% of creditable plan compensation and the participant must elect the contribution percentage before the beginning of the year. A participant who contributes to the Supplemental 401(k) Plan for a given year is credited with a matching employer contribution under the Supplemental 401(k) Plan determined under the same matching formula as in the Qualified 401(k) Plan, which generally provides for a match equal to 100% of contributions that do not exceed 3% of the participant's compensation plus 50% of the contributions that exceed 3% but not 6% of the participant's compensation. Creditable compensation under the Supplemental 401(k) Plan is defined in the same way as under the Qualified Pension Plan, but it includes amounts deferred by participants under the Supplemental 401(k) Plan and includes compensation credited under the tax-qualified 401(k) plan, the Retirement Savings Plan. The maximum creditable compensation for the plan in any year is \$350,000.

A participant is always 100% vested in both his or her own contributions and the employer matching contributions, and all earnings on both types of contributions under the Supplemental 401(k) Plan. The plan provides that a participant may elect to receive benefits at a specified age or date, upon separation from service, at death or disability, or at the earliest of these events. A participant may elect to receive benefits in the form of a single lump sum or in annual installments payable over 5 or 10 years. Elections are made with respect to each year's contribution to the Supplemental 401(k) Plan prior to the beginning of each year. All payments from the Supplemental 401(k) Plan are made in the form of cash.

***Supplemental Retirement Savings Plan - Supplemental Retirement Accumulation Account Plan***

The Supplemental Retirement Accumulation Account (the Supplemental RAA) portion of the Supplemental Retirement Savings Plan (the Supplemental RSP) is designed to provide participants with benefits that cannot be provided under our qualified plans as a result of limitations imposed by the Internal Revenue Code. Mr. Jones is the only NEO who participates in the Supplemental RAA.

For a given year, the Supplemental RAA credits a contribution on behalf of a participant that is equal to the difference between (1) the contribution that would be provided on plan compensation under the Qualified RAA if the Internal Revenue Code limit did not exist up to the Supplemental RSP Plan compensation limit of \$350,000, and (2) the contribution actually provided under the Qualified RAA. Mr. Jones was credited with \$4,250 for the 2015 plan year. The book reserve accounts attributable to Supplemental RAA contributions are subject to the same vesting schedule as the accounts in the Qualified RAA, and Mr. Jones is fully vested in his Supplemental RAA account. Benefits under the Supplemental RAA and the Supplemental 401(k) are payable in the first quarter of 2016. Service in the Supplemental RAA is determined in the same manner as under the Qualified RAA.

**Table of Contents*****Deferred Bonus Plan***

Through December 31, 2009, the Deferred Bonus Plan allowed select members of management and highly compensated employees of M&T to defer all or a portion of an annual bonus award they received under an M&T bonus or incentive plan. Deferrals under the Deferred Bonus Plan were discontinued as of December 31, 2009, although Mr. Gold has an account in the Deferred Bonus Plan as of December 31, 2015 resulting from prior years deferrals, and he received a cash distribution under the plan in accordance with an election made under the plan in 1998.

When the Deferred Bonus Plan was active, an eligible employee could elect to defer a specific percentage or a dollar amount of the award, with a minimum deferral of \$10,000. A participant could elect to defer such amount for a period of 5 to 20 years and could elect to receive the deferred account balance in a single lump sum or in annual installments over 5 or 10 years. If the participant's employment ends prior to the time all deferrals have been distributed, the deferral period ends and payments commence in the form elected. Participants are always 100% vested in their deferred account balance.

**Potential Payments Upon Termination or Change-in-Control**

The following table indicates the potential post-employment payments and benefits for the NEOs in the event that either of the following had occurred on December 31, 2015: (i) an involuntary termination of employment or (ii) a change-in-control event accompanied by an involuntary termination of employment.

**2015 Post-Employment Benefits<sup>(1)</sup>**

<b>Name</b>	<b>Severance Pay<sup>(2)</sup></b>	<b>Health Benefit Coverage</b>	<b>Value of Equity Awards</b>	<b>Total Benefits Upon Involuntary Termination</b>	<b>Total Benefits Upon Involuntary Termination Preceded by Change-in-Control Event</b>
Robert G. Wilmers	\$ 1,900,000	\$ 40,274	\$ 5,035,756	\$ 1,940,274	\$ 6,976,030
René F. Jones	\$ 1,400,000	\$ 16,722	\$ 3,490,226	\$ 1,416,722	\$ 4,906,948
Mark J. Czarnecki	\$ 1,800,000	\$ 14,623	\$ 5,005,219	\$ 1,814,623	\$ 6,819,842
Kevin J. Pearson	\$ 1,350,000	\$ 24,906	\$ 3,497,376	\$ 1,374,906	\$ 4,872,282
Richard S. Gold	\$ 1,350,000	\$ 16,793	\$ 2,787,867	\$ 1,366,793	\$ 4,154,660

(1) In the event of an involuntary termination of employment, NEOs are entitled to the accelerated vesting of equity awards only if such involuntary termination is preceded by a change-in-control event.

(2) Assumes the NEO would receive the maximum potential severance of 104 weeks of cash base salary.

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**Severance Pay Plan**

M&T maintains the Severance Pay Plan which is a broad-based, tiered severance plan that provides eligible employees with post-employment severance payments and the continuation of certain employee benefits when a Qualifying Event (defined as any permanent, involuntary termination of a participant's active employment as a result of a reduction in force, restructuring, outsourcing or elimination of position) occurs. The amount of severance an employee is eligible to receive is based upon the employee's position and years of service. Each NEO participates in the plan. Upon the occurrence of a Qualifying Event, each NEO will be entitled to:

the continuation of his cash base salary for at least 52 weeks, but in no event more than 104 weeks as determined at the time of the Qualifying Event; and  
the continuation of certain benefits during the period in which severance payments are made, for those benefits that the NEO has elected at the time of the Qualifying Event, which may include medical, dental, vision and life insurance, and flexible spending accounts, provided the NEO continues to make contributions at the active employee rate.

**Accelerated Vesting of Equity Awards**

With the exception of the performance-based equity awards granted to Messrs. Wilmers, Czarnecki and Pearson in 2014 and 2015 and to Mr. Gold in 2015, all employees, including the NEOs, would be immediately vested in any unvested equity awards that were granted under M&T's various equity compensation plans at the time of change-in-control, death, disability or retirement. Unvested shares of performance-based equity awards granted to Messrs. Wilmers, Czarnecki and Pearson in 2014 and 2015 and to Mr. Gold in 2015 will vest automatically at change-in-control, death or disability, but will not accelerate and vest after retirement until such time as the performance requirement is deemed to have been met for the year in which the retirement occurred. See also footnote (2) to the table set forth under the section titled "2015 Grants of Plan-Based Awards" for vesting schedule restrictions.

**Table of Contents****PROPOSAL 3****PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF M&T BANK CORPORATION FOR THE YEAR ENDING DECEMBER 31, 2016**

On February 16, 2016, the Audit Committee appointed PricewaterhouseCoopers LLP, certified public accountants, as the independent registered public accounting firm of M&T for the year ending December 31, 2016, a capacity in which it has served since 1984.

Although shareholder approval of the appointment of the independent registered public accounting firm is not required by law, M&T believes that it is desirable to request that the shareholders ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP as M&T's independent registered public accounting firm for the year ending December 31, 2016. In the event that the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment and make such a determination as it believes to be in M&T's and its shareholders' best interests. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in M&T's and its shareholders' best interests.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. The representatives may, if they wish, make a statement and, it is expected, will be available to respond to appropriate questions.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION  
OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM OF M&T BANK CORPORATION FOR THE  
YEAR ENDING DECEMBER 31, 2016.**

The following is a summary of the fees billed to M&T by PricewaterhouseCoopers LLP for professional services rendered during 2015 and 2014, which are categorized in accordance with the SEC's rules as follows:

**Fees to Independent Auditors**

	2015	2014
Audit Fees	\$ 3,515,350	\$ 3,215,496

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Audit-Related Fees	948,369	925,165
Tax Fees	89,500	87,000
All Other Fees	7,158	109,136
Total	\$ 4,560,377	\$ 4,336,797

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### **Audit Fees**

Audit fees consist of fees billed by PricewaterhouseCoopers LLP for services rendered for the audit of M&T's annual consolidated financial statements as of and for the years ended December 31, 2015 and 2014, for its review of M&T's quarterly consolidated financial statements during 2015 and 2014, and for other audit and attest services in connection with statutory and regulatory filings as of and for the years ended December 31, 2015 and 2014.

### **Audit-Related Fees**

Audit-related fees consist of fees billed by PricewaterhouseCoopers LLP for audit-related services, including audits of employee benefit plans and other attest services that are not required by statute or regulation for the years ended December 31, 2015 and 2014. Of the audit-related fees billed for the years ended December 31, 2015 and 2014, all services were pre-approved by the Audit Committee.

### **Tax Fees**

Tax fees consist of fees billed by PricewaterhouseCoopers LLP for tax compliance, planning and consulting for the years ended December 31, 2015 and 2014. Of the tax fees billed for the years ended December 31, 2015 and 2014, all services were pre-approved by the Audit Committee.

### **All Other Fees**

All other fees for the year ended December 31, 2015 consisted of fees billed by PricewaterhouseCoopers LLP primarily for research software licensing. All other fees billed by PricewaterhouseCoopers LLP for the year ended December 31, 2014 consisted primarily of internal audit risk assessment services and research software licensing. All fees billed in this category for the years ended December 31, 2015 and 2014 were pre-approved by the Audit Committee.

In addition to the above services, for the year ended December 31, 2015, PricewaterhouseCoopers LLP billed \$65,000 for a mortgage servicing report that was reimbursed by an outside mortgage company, and directly billed certain investment funds sponsored by a subsidiary of M&T a total of \$235,180 for audit services and Form 5500 preparation fees. Likewise, for the year ended December 31, 2014, PricewaterhouseCoopers LLP billed \$40,000 for a mortgage servicing report that was reimbursed by an outside mortgage company, and directly billed certain investment funds sponsored by a subsidiary of M&T, a total of \$186,480 for audit services and Form 5500 preparation fees.

The Audit Committee has determined that PricewaterhouseCoopers LLP's provision of professional services is compatible with maintaining its independence. No fees were billed and no services were provided by PricewaterhouseCoopers LLP during 2015 and 2014 for financial information systems design and implementation.

No other fees were billed for any other services and no other services were provided by PricewaterhouseCoopers LLP for the years ended December 31, 2015 and 2014.



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### **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

Beginning with the year ended December 31, 2003, M&T instituted a policy that the Audit Committee pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally detailed as to the particular service or category of services and is generally subject to a specific budget range. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval policy, and the fees for the services performed to date. The Audit Committee may also pre-approve additional services on a case-by-case basis. In the period between meetings of the Audit Committee, the Chair of the Audit Committee is authorized to pre-approve such services on behalf of the Audit Committee provided that such pre-approval is reported to the Audit Committee at its next regularly scheduled meeting.

Before appointing PricewaterhouseCoopers LLP, the Audit Committee considered PricewaterhouseCoopers LLP's qualifications as an independent registered public accounting firm. This included a review of the qualifications of the engagement team, the quality control procedures the firm has established, any issues raised by the most recent quality control review of the firm, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Audit Committee's review also included matters required to be considered under the SEC's rules on auditor independence, including the nature and extent of non-audit services, to ensure that the auditor's independence will not be impaired. The Audit Committee has considered and determined that PricewaterhouseCoopers LLP's provision of non-audit services to M&T during 2015 is compatible with and did not impair PricewaterhouseCoopers LLP's independence.

### **Report of the Audit Committee**

The members of the Audit Committee are independent as that term is defined in the listing standards of the NYSE. The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of such charter can be accessed on M&T's website at [www.ir.mandtbank.com/corpgov.cfm](http://www.ir.mandtbank.com/corpgov.cfm). During 2015, the Audit Committee met six times, and held discussions with management and representatives of its independent registered public accounting firm consistent with its responsibilities under its charter.

Management is responsible for the preparation of M&T's consolidated financial statements and their assessment of the design and effectiveness of M&T's internal control over financial reporting. The independent registered public accounting firm is responsible for performing an independent audit of M&T's consolidated financial statements and opining on the effectiveness of those controls in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and issuing its reports thereon. As provided in its charter, the Audit Committee's responsibilities include monitoring and overseeing these processes.

In discharging its oversight responsibilities, the Audit Committee has reviewed and discussed M&T's 2015 audited consolidated financial statements with management and its independent registered public accounting firm and has reviewed and discussed with the independent registered public accounting firm all communications required by standards of the

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PCAOB, including the matters described in PCAOB Auditing Standard No. 16, (*Communication with Audit Committees*), which include, among other items, matters related to the conduct of the audit of M&T's financial statements.

The Audit Committee has also received the written disclosures and the letter from M&T's independent registered public accounting firm as required by the PCAOB's Ethics and Independence Rule 3526 (*Communication with Audit Committees Concerning Independence*) and has discussed with the independent registered public accounting firm their independence.

Based on these reviews and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board that the audited consolidated financial statements and report on management's assessment of the design and effectiveness of internal control over financial reporting be included in M&T's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 19, 2016. The Audit Committee also selected the independent registered public accounting firm.

This report was adopted on February 16, 2016 by the Audit Committee of the Board of Directors:

C. Angela Bontempo, Chair

Richard A. Grossi

Patrick W.E. Hodgson

Richard G. King

Herbert L. Washington

In accordance with and to the extent permitted by applicable law or regulation, the information contained in the Report of the Audit Committee of M&T Bank Corporation shall not be incorporated by reference into any future filing under the Securities Act or the Exchange Act and shall not be deemed to be soliciting material or to be filed with the SEC under the Securities Act or the Exchange Act.

## **NOTICE PURSUANT TO SECTION 726(d) OF THE NEW YORK BUSINESS CORPORATION LAW**

On June 30, 2015, M&T renewed its directors' and officers' liability insurance policy until June 30, 2016. The premium, including commissions, for this renewal is \$2,221,441. The primary policy is issued by U.S. Specialty Insurance Company and covers all directors and officers of M&T and its subsidiaries.

## **OTHER MATTERS**

The Board of Directors of M&T is not aware of any matters not referred to in this proxy statement that will be presented for action at the Annual Meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed proxy to vote the shares represented thereby in accordance with their best judgment.



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***IMPORTANT ANNUAL MEETING INFORMATION***

**Electronic Voting Instructions**

**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

**YOUR CONTROL NUMBER IS LOCATED BELOW IN THE TITLE BAR.**

**Proxies submitted via the Internet or telephone must be received by 1:00 a.m. (EDT), on April 19, 2016.**

**Vote via the Internet**

Go to **[www.investorvote.com/MTB](http://www.investorvote.com/MTB)**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

**Vote via the telephone**

Call toll free 1-800-652-VOTE (8683) within

the USA, US territories and Canada on a touch tone telephone

Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q**

**A Proposals** The Board of Directors of M&T Bank Corporation recommends a vote **FOR** the following proposals.

TO ELECT 16 DIRECTORS FOR ONE-YEAR TERMS AND UNTIL THEIR SUCCESSORS HAVE BEEN ELECTED AND QUALIFIED.

	For	Withhold		For	Withhold		For	Withhold
Brent D. Baird	..	..	02 - C. Angela Bontempo	..	..	03 - Robert T. Brady	..	..
T. Jefferson Cunningham III	..	..	05 - Mark J. Czarnecki	..	..	06 - Gary N. Geisel	..	..
Richard A. Grossi	..	..	08 - John D. Hawke, Jr.	..	..	09 - Patrick W.E. Hodgson	..	..
Richard G. King	..	..	11 - Newton P.S. Merrill	..	..	12 - Melinda R. Rich	..	..
Robert E. Sadler, Jr.	..	..	14 - Denis J. Salamone	..	..	15 - Herbert L. Washington	..	..
Robert G. Wilmers	..	..						

**Meeting Attendance**

Mark the box to the right if you plan to attend the Annual Meeting.

**For Against Abstain**

**Materials Preference**

Mark the box to the right if you prefer to access your Annual Reports and Proxy Statements online via the Internet instead of receiving them in the mail.

2. TO APPROVE THE COMPENSATION OF M&T BANK CORPORATION S NAMED EXECUTIVE OFFICERS. .. ..

3. TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF M&T BANK CORPORATION FOR THE YEAR ENDING DECEMBER 31, 2016. .. ..

**IF VOTING BY MAIL, YOU MUST COMPLETE SECTION A ON THIS SIDE AND SECTION C ON THE REVERSE SIDE OF THIS CARD. COMPLETE SECTION B, IF APPLICABLE. PLEASE SIGN AND DATE ON THE REVERSE SIDE.**

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**YOUR VOTE IS IMPORTANT!**

Proxy materials are available online at:

<http://ir.mandtbank.com/proxy.cfm>

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

**PROXY M&T BANK CORPORATION**

**Annual Meeting of Shareholders April 19, 2016, 11:00 a.m. (EDT)**

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**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Richard R. LeFrois, Anthony J. Sartor and Mark R. Stebbins as Proxies and authorizes said Proxies, or any one of them, to represent and to vote all of the shares of common stock of M&T Bank Corporation which the undersigned may be entitled to vote at the Annual Meeting of Shareholders to be held on the 10th floor of One M&T Plaza in Buffalo, New York on Tuesday, April 19, 2016, at 11:00 a.m. (EDT), and any adjournments thereof (i) as designated on the proposals set forth on the reverse side of this card and (ii) at the discretion of said Proxies, or any one of them, on such other matters as may properly come before the meeting.

**IF PROPERLY EXECUTED, THIS PROXY WILL BE VOTED AS SPECIFIED OR, IF NOT SPECIFIED, WILL BE VOTED FOR ALL PROPOSALS.**

**PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE OR VOTE VIA THE INTERNET OR TELEPHONE.**

**B Change of Address**

Please print new address below.

**C Authorized Signatures** This section must be completed for your vote to be counted. **Date and Sign Below**

**PLEASE SIGN EXACTLY AS YOUR NAME(S) APPEAR(S) ON THIS CARD.** When signing as an attorney, executor, administrator, trustee or guardian, please give full title. If a corporation or partnership, write in the full corporate or partnership name and have the President or other authorized officer sign. If shares are held jointly, each holder should sign, but only one signature is required.

Date (mm/dd/yyyy) Please print date Signature 1 Please keep signature Signature 2 Please keep signature  
below. within the box. within the box.

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