

FIRST FINANCIAL BANKSHARES INC  
Form DEF 14A  
March 03, 2009

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

**First Financial Bankshares, Inc.**

(Name of Registrant As Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

2) Aggregate number of securities to which transaction applies: \_\_\_\_\_

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

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Fee paid previously with preliminary materials: \$\_\_\_\_\_

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1) Amount Previously Paid: \$ \_\_\_\_\_

2) Form, Schedule or Registration Statement No.: \_\_\_\_\_

3) Filing Party: \_\_\_\_\_

4) Date Filed: \_\_\_\_\_

**FIRST FINANCIAL BANKSHARES, INC.**

**400 Pine Street  
Abilene, Texas 79601  
325.627.7155**

**NOTICE OF THE 2009 ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 28, 2009**

To our shareholders:

We cordially invite you to attend the annual meeting of our shareholders, which will be held in the Abilene Civic Center, 1100 North 6th Street, Abilene, Texas, at 10:30 a.m., Central time, on Tuesday, April 28, 2009, for the following purposes:

- (1) To elect 12 directors;
- (2) To ratify the appointment by our audit committee of Ernst & Young LLP as our independent auditors for the year ending December 31, 2009;
- (3) To act on such other business as may properly come before the annual meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 2, 2009, are entitled to notice of and to vote at the annual meeting or any continuation of the meeting if it is adjourned.

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on April 28, 2009. The proxy statement and other information for security holders are available at <http://www.ffin.com/invrel.asp?req=docs>.**

We have included, along with this notice and proxy statement, (1) our 2008 annual report, which describes our activities during 2008, (2) our Form 10-K for the year ended December 31, 2008 and (3) an invitation to attend the annual meeting luncheon. These additional materials do not form any part of the material for solicitation of proxies.

We hope that you will be present at the annual meeting and the luncheon to be held immediately afterward. We respectfully urge you, whether or not you plan to attend the annual meeting, to sign, date and mail the enclosed proxy card in the envelope provided in order to eliminate any question of your vote being counted. You can revoke your proxy in writing at any time before the annual meeting, so long as your written request is received by our corporate secretary before your proxy is voted. Alternatively, if you submitted a proxy and attend the annual meeting in person, you may revoke the proxy and vote in person on all matters submitted at the annual meeting. We can accommodate everyone at the annual meeting; however, there is limited seating for the luncheon so we request that you confirm your attendance by completing the enclosed reply card and returning it to us as soon as possible.

By order of the Board of Directors,

F. SCOTT DUESER, Chairman

March 2, 2009

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**FIRST FINANCIAL BANKSHARES, INC.**  
**400 Pine Street**  
**Abilene, Texas 79601**  
**325.627.7155**  
**PROXY STATEMENT**  
**2009 ANNUAL MEETING OF SHAREHOLDERS**  
**TO BE HELD APRIL 28, 2009**  
**INTRODUCTION**

The board of directors of First Financial Bankshares, Inc. hereby solicits your proxy for use at the 2009 annual meeting of our shareholders and any continuation of this meeting if it is adjourned. The annual meeting will be held in the Abilene Civic Center, 1100 North 6th Street, Abilene, Texas, at 10:30 a.m., Central time, on Tuesday, April 28, 2009.

Our principal executive office is located at 400 Pine Street, Abilene, Texas 79601. Our telephone number is 325.627.7155.

We mailed this proxy statement and the accompanying proxy card on March 2, 2009. The date of this proxy statement is March 2, 2009.

**VOTING OF SECURITIES**

**Record Date**

Our board of directors has established the close of business on March 2, 2009, as the record date for determining the shareholders entitled to notice of, and to vote at, the annual meeting. On the record date, we had 20,804,668 shares of our common stock outstanding.

**Quorum**

In order for any business to be conducted at the annual meeting, a quorum consisting of shareholders having voting rights with respect to a majority of our outstanding common stock on the record date must be present in person or by proxy. You may only vote if you hold your shares directly in your name. If your shares are held in street name by your broker, your broker will send you instructions on how you can instruct your broker to vote your shares. Your broker generally cannot vote your shares on non-routine matters without instructions from you. Shares that are represented at the annual meeting but abstain from voting on any or all matters and shares that are broker non-votes will be counted in determining whether a quorum is present at our annual meeting. A broker non-vote occurs when a broker or nominee votes on some matters on the proxy card but not others because he does not have authority to do so from the beneficial owner of the underlying shares.

If a quorum is not present at the annual meeting, we will adjourn the meeting, and the board of directors will continue to solicit proxies.

**Required Vote**

The affirmative vote of a plurality of the shares cast at the annual meeting is required to elect a nominee for director and to approve the ratification of Ernst & Young LLP as our independent accountants. If you abstain from voting or withhold authority to vote in the election of a director, your abstention or withholdings will have no effect. Broker non-votes will have no effect on the outcome of director elections or independent accountant ratification.

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### **Shareholder List**

A list of shareholders entitled to vote at the annual meeting, which will show each shareholder's address and the number of shares registered in his, her or its name, will be open to any shareholder to examine for any purpose related to the annual meeting. Any shareholder may examine this list during ordinary business hours commencing March 2, 2009, and continuing through the date of the annual meeting at our principal office, 400 Pine Street, Abilene, Texas 79601.

### **SOLICITATION AND REVOCABILITY OF PROXIES**

#### **Solicitation**

We will bear the expense to solicit proxies, which will include reimbursement of expenses incurred by brokerage firms and other custodians, nominees and fiduciaries to forward solicitation materials regarding the annual meeting to beneficial owners. Our officers and directors may further solicit proxies from shareholders and other persons by telephone or oral communication. We will not pay these officers any extra compensation for participating in this solicitation. We may engage Georgeson Shareholder to assist us with the solicitation of proxies and, if so, would expect to pay that firm approximately \$15,000 for their services, plus out-of-pocket expenses.

#### **Proxies and Revocation**

Each executed and returned proxy card will be voted according to the directions indicated on that proxy card. If no direction is indicated, the proxy will be voted according to the board of directors' recommendations, which are contained in this proxy statement. The board of directors does not intend to present, and has no information that others will present, any business at the annual meeting that requires a vote on any other matter. If any other matter requiring a vote properly comes before the annual meeting, the proxies will be voted in the discretion of the proxyholders named on the proxy.

Each shareholder giving a proxy has the power to revoke it at any time before the shares of our common stock it represents are voted. This revocation is effective upon receipt, at any time before the annual meeting is called to order, by our corporate secretary of either (1) an instrument revoking the proxy or (2) a duly executed proxy bearing a later date than the preceding proxy. Additionally, a shareholder may change or revoke a previously executed proxy by voting in person at the annual meeting.

### **PROPOSAL 1 ELECTION OF DIRECTORS**

#### **General**

The board of directors of your Company currently consists of 12 directors. At the annual meeting, 12 directors are to be elected, each for a term of one year. Mr. F. L. Stephens has chosen to retire from the board, effective April 28, 2009, and not stand for reelection. Mr. Ron Giddiens, a business consultant and former banker, is being nominated for the board along with the current board, except Mr. Stephens. Under our bylaws, an individual may not stand for election or reelection as a director upon attaining 72 years of age, unless he owns at least one percent (1%) of the outstanding shares of our common stock and is less than 75 years of age. While our bylaws fix the number of directors at a number not less than three nor more than 30, the board of directors has fixed the number of directors at 12 for 2009. Although we do not contemplate that any of the nominees will be unable to serve, if such a situation arises before the annual meeting, the proxies will be voted to elect any substitute nominee or nominees designated by the board of directors.

Under Nasdaq rules, a majority of the board of directors must be comprised of independent directors. The board has determined that each director nominated, except Mr. Dueser, is independent under applicable Nasdaq rules.

**Nominees**

The names and principal occupations of the nominees, together with the length of service as a director and the number of shares of our common stock beneficially owned by each of them on February 1, 2009, are set forth in the following table; except as otherwise indicated, the named beneficial owner has sole voting and investment power with respect to shares held by him or her. The address for each individual is 400 Pine Street, Abilene, Texas 79601.

<b>Name</b>	<b>Age</b>	<b>Years as Director (1)</b>	<b>Principal Occupation During Last Five Years</b>	<b>Shares of Bankshares Beneficially</b>	<b>Percent of Shares</b>
				<b>Owned</b>	<b>Outstanding</b>
Tucker S. Bridwell	57	2	President, Mansefeldt Investment Corporation	39,338(2)	0.19%
Joseph E. Canon	66	13	Executive Director, Dodge Jones Foundation, a private charitable foundation	76,368(3)	0.37%
Mac A. Coalson	69	13	Mac A. Coalson Real Estate	233,654	1.12%
David Copeland	53	11	President, SIPCO and Shelton Family Foundation, a private charitable foundation	173,883(4)	0.84%
F. Scott Dueser	55	18	See Executive Officers on page 6 (10)	245,989(5)(6)	1.18%
Murray Edwards	57	3	Principal, The Edwards Group	35,707(7)	0.17%
Ron Giddiens	61		Investments/Business Consulting	1,990	0.01%
Derrell E. Johnson	69	9	Former President and CEO Rady and Associates, Consulting Engineers	42,000	0.20%
Kade L. Matthews	50	11	Ranching and Investments	259,483(8)	1.25%
Kenneth T. Murphy	71	38	Senior Chairman, First Financial Bankshares, Inc. (10)	120,272	0.58%
Dian Graves Stai	68	16	Chair, Dian Graves Owen Foundation, a private charitable foundation	103,842(9)	0.50%

Johnny E. Trotter	57	6	President & CEO, Livestock Investors, Ltd.	105,681	0.51%
Shares beneficially owned by all executive officers and directors*				1,100,227(6)	5.29%

\* See Security Ownership of Certain Beneficial Owners and Management.

(1) The years indicated are the approximate number of years each person has continuously served as a director, or, prior thereto, of First Financial Bank, N.A, Abilene, which became our wholly-owned subsidiary in April 1973, when all the then directors of First Financial Bank, N.A., Abilene became our directors.

(2) Includes 31,249 shares that are owned by a private foundation for which Mr. Bridwell serves as president to which he disclaims beneficial ownership.

Mr. Bridwell is also a director of Petrohawk Energy Corporation and Concho Resources, Inc.

- (3) Includes 70,000 shares that are owned by a private foundation for which Mr. Canon serves as executive director to which he disclaims beneficial ownership. Mr. Canon is also a director of Main Street Capital Corporation.
- (4) Includes 163,215 shares that are owned by trusts for which Mr. Copeland serves as trustee or co-trustee to which he disclaims beneficial ownership. Mr. Copeland is also a director of Harte-Hanks, Inc.
- (5) Includes 50,171 shares owned by his wife of which he disclaims beneficial

ownership.

- (6) Includes shares indirectly owned as of February 1, 2009 through the employee stock ownership plan portion of the profit sharing plan which each participant has sole voting powers, as follows:  
Mr. Dueser 25,867 and all executive officers as a group 31,841.
- (7) Includes 833 shares of our common stock owned by Mr. Edwards spouse.
- (8) Includes 113,025 shares that are owned by a private foundation for which Mr. Matthews serves as president and director to which he disclaims beneficial ownership.
- (9) Includes 31,249 shares that are owned by a private foundation for which Ms. Stai



serves as chair  
of the board of  
directors to  
which she  
disclaims  
beneficial  
ownership.

- (10) Effective  
January 1, 2008,  
the Board of  
Directors  
elected  
Mr. Dueser  
Chairman of the  
Board of  
Directors and, in  
light of his years  
of service,  
Mr. Murphy  
was named  
Senior  
Chairman of the  
Board.

**THE BOARD OF DIRECTORS RECOMMENDS YOU  
VOTE FOR THE ELECTION OF EACH OF THESE NOMINEES.  
PROPOSAL 2**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The audit committee of your board of directors has selected Ernst & Young LLP to serve as our independent auditors for the year ending December 31, 2009 and to serve until the next annual meeting in April 2010. Ernst & Young LLP has served as the Company's independent auditors since 2002. We have been advised by Ernst & Young LLP that neither its firm nor any of its members has any financial interest, direct or indirect, in us, nor has had any connection with us or any of our subsidiaries in any capacity other than independent auditors. The board of directors recommends that you vote for the ratification of the selection of Ernst & Young LLP. Shareholder ratification of the selection of Ernst & Young LLP as our independent auditors is not required by our certificate of formation, bylaws or otherwise. Nevertheless, your board of directors is submitting this matter to the shareholders as what we believe is a matter of good corporate practice. If the shareholders do not ratify the appointment of Ernst & Young LLP, then the appointment of independent auditors will be reconsidered by our audit committee. Even if the appointment is ratified, the audit committee in its discretion may direct the appointment of a different independent audit firm at any time during the year if it is determined that such a change would be in the best interests of the Company and its shareholders. Representatives of Ernst & Young LLP are expected to be present at the annual shareholders meeting, and they may have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE  
RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S  
INDEPENDENT AUDITORS FOR THE YEAR 2009**

**Executive Officers**

Set forth in the following table are our executive officers, and the shares of our common stock beneficially owned by each of them as of February 1, 2009. Except as otherwise indicated, the named executive officer has sole voting and investment power with respect to the shares he holds. The address for each individual is 400 Pine Street, Abilene, Texas 79601.

<b>Name</b>	<b>Age</b>	<b>Office</b>	<b>Years Served in Such Office</b>	<b>Principal Occupation During Past 5 Years</b>	<b>Shares of Bankshares Beneficially Owned</b>	<b>Percent of Shares Outstanding</b>
F. Scott Dueser	55	Chairman of the Board, President and Chief Executive Officer	8	Chairman, President and Chief Executive Officer of First Financial Bankshares, Inc.; Chairman, First Financial Bank, N.A., Abilene*	245,989 (1)(2)	1.18%
Gary S. Gragg	49	Executive Vice President	3	Executive Vice President of First Financial Bankshares, Inc.; Senior Vice President of First Financial Bankshares, Inc. (1996 to 2005)	9,787 (1)(3)	0.05%
J. Bruce Hildebrand	53	Executive Vice President and Chief Financial Officer	6	Executive Vice President and Chief Financial Officer of First Financial Bankshares, Inc.	5,615 (1)	0.03%
Gary L. Webb	51	Executive Vice President	6	Executive Vice President of First Financial Bankshares, Inc.	4,736 (1)(3)	0.02%

\* A bank subsidiary.

(1) Includes shares indirectly owned as of February 1, 2009 through our employee stock ownership plan portion of the profit sharing plan, which each participant has

sole voting  
power, as  
follows:

Mr. Dueser

25,867,

Mr. Gragg

3,248,

Mr. Hildebrand

768, and

Mr. Webb 643.

- (2) Includes 50,171 shares owned by his wife of which he disclaims beneficial ownership.
- (3) Includes 2,650 and 2,666 shares of our common stock issuable upon exercise of options presently exercisable or exercisable within 60 days of February 1, 2009 for Messrs. Gragg and Webb, respectively.

## Compensation Discussion and Analysis

### Objectives/Philosophy

The compensation committee's philosophy is to provide a compensation package that attracts and retains executive talent, provides rewards for superior performance and produces consequences for underperformance. It is also the compensation committee's practice to provide a balanced mix of cash and equity-based compensation that the committee believes appropriate to align the short and long-term interests of the Company's executives with that of its shareholders and to encourage executives to participate and perform as equity owners of the Company. From December 2007 to February 2008, the compensation committee retained Hewitt Associates LLC, a human resources and executive compensation consulting firm, to assist it in its review of our executive compensation.

We believe that to attract and retain the quality of executive talent to achieve our long-term strategic business goals, we must offer a competitive compensation package to our executives. The compensation committee seeks to attract executive talent by offering competitive base salaries, annual performance incentive opportunities, and the long-term rewards under the Company's long-term incentive programs (including profit sharing and incentive stock option plans). When considering pay decisions for our named executive officers, we target the median of the market for total compensation. While applying no specific formula or weighting of each factor, we also consider the executive's scope of responsibilities, skills and experience, overall company performance and board evaluation of the executive's individual performance. Based on our business strategy and the results we expect from our executives, we attempt to align their current pay between short- and long-term pay as well as the mix of cash and equity compensation. We believe the design of our compensation programs and the amounts paid have been and continue to be appropriate. We continually review our programs to ensure they are aligned with our business objectives and shareholder interests.

The compensation committee measures the Company's senior management compensation levels with comparable levels in industry benchmark studies and peer group data. We use survey data to benchmark our executive positions to those at other banking institutions with total asset size similar to ours. We also consider the compensation data disclosed by a peer group of companies. The peer group is comprised of companies selected on the basis of asset size, demographics, and structure. The peer group companies considered by the compensation committee are:

BancFirst Corporation	Bank of the Ozarks, Inc.
First State Bancorporation	Glacier Bancorp, Inc.
Hancock Holding Company	IberiaBank Corporation
Park National Corporation	Prosperity Bancshares, Inc.
Renasant Corporation	Simmons First National Corporation
Southside Bancshares, Inc.	Southwest Bancorp, Inc.
Sterling Bancshares, Inc.	Texas Capital Bancshares, Inc.

It is the compensation committee's practice to provide incentives that promote both the short- and long-term financial objectives of the Company. To motivate our executives to achieve our strategic business goals, we offer the opportunity to earn the targeted level of pay through incentive pay that correlates to the Company's short- and long-term performance. These incentives are based on financial objectives of importance to the Company, including earnings growth, return on assets, and enhancement of shareholder value. Annual bonuses reward achievement of short-term objectives that are established to encourage our executives to make decisions currently that promote long-term growth. Long-term incentive programs encourage executives to focus on the Company's long-term strategic goals which will increase shareholder value, while accomplishing a high retention of our executives. Our compensation program also accounts for individual performance, which enables the compensation committee to differentiate among executives and emphasize the link between personal performance and compensation.

## Elements of Compensation

The following is a summary of the elements of compensation provided to our CEO and other members of senior management. Further details and disclosures of each of these elements can be found in the tabular disclosures that follow.

*Base Salary.* Base salaries paid to our executives competitively compensate them for the experience and skills needed to perform their current roles as well as reward their prior individual performance. We seek to provide our senior management with a level of assured cash compensation in the form of base salary that reflects their professional status, accomplishments and experience.

*Bonus.* We offer a bonus plan that provides senior management with an opportunity to receive a cash bonus based on a sliding scale upon satisfaction of pre-determined performance goals. For years 2007 and prior, the scale considered our net income and our return on average assets. The maximum award for senior management of the Company was approximately 16% of the executive's base salary. For 2007, none of the named executive officers qualified under that plan. Effective in 2008 we revised the executive bonus program in light of observations and recommendations of Hewitt Associates. The revised program considered similar measures but is tailored annually to specific goals of the applicable executive. Mr. Dueser's, Mr. Hildebrand's and Mr. Webb's goals were based on earnings growth, return on average assets, return on average equity and efficiency ratio while Mr. Gragg's goals were based on earnings growth, return on average assets and credit quality. The maximum award for senior management of the Company is 30% of the executive's base salary. Subsidiary bank presidents are also included in this revised bonus program and their goals are tailored to specific situations of their subsidiary bank. While the performance goals drive the bonus plan and executive awards, the compensation committee retains discretion to adjust payouts of the awards based on the performance of the Company, including audit, compliance and asset quality issues, and the individual as deemed appropriate.

*Equity Compensation.* We currently offer stock options under our incentive stock option plan approved by shareholders. The purpose of the stock option plan is to attract and retain key officers and to encourage employee performance by providing them a proprietary interest in our Company through the granting of stock options. We believe, at the present time, stock options are the appropriate long term incentive vehicle to maintain our executives focus on stock price appreciation. We continue to review this approach for each new grant to ensure that equity compensation will drive our executives toward successful long-term business results.

Only incentive stock options (as defined in the Internal Revenue Code) may be granted under the stock option plan. Incentive stock options granted under the stock option plan may be exercised solely by the grantee, or in the case of the grantee's death or incapacity, by the grantee's executors, administrators, guardians or other legal representatives and are not assignable or transferable by a grantee. We generally expect the grantee not to dispose of the shares obtained through exercise of the options but rather to keep and build an equity interest in the Company. Our use of incentive stock options further encourages our executives to exercise their options and hold the resulting shares by giving them the opportunity for favorable tax treatment for the exercise gain if certain holding requirements are met.

Generally, the compensation committee grants options every two years, subject to the board of directors approval. The last grant was in January 2007 and we expect to grant stock options in amounts similar to 2007 in May 2009 following the 2009 Annual Shareholders Meeting. Allocation of options is based on competitive market considerations, past and expected performance of the executive, fairness, affordability and retention considerations. Grantees are required to sign confidential information, non-solicitation and non-competition agreements in connection with receipt of the option grants to prohibit actions detrimental to the Company. Day-to-day administration of the stock option plan is delegated to an executive officer of the Company.

The compensation committee does not grant options during any black-out period under our insider trading policy. We do not release material, non-public information for the purpose of affecting the value of executive compensation, nor do we grant options to executives in coordination with the release of material, non-public information. All awards of shares of the Company's common stock under our incentive stock option plan are made at the market price at the time of the award.

In addition, under our insider trading policy, executive officers and directors of the Company may not buy or sell our stock during a trading period beginning fifteen days before the end of a fiscal quarter until three business days following the release of quarterly earnings information. Trading by directors and executive officers of the Company is also prohibited during designated periods when they possess material, non-public information about us.

*Pension Plan.* The defined benefit pension plan requires annual contributions sufficient to provide the pension benefits accruing to employees under the pension plan, as required by the Internal Revenue Service's funding standards and the Pension Protection Act of 2006. The annual benefit for a participant in the pension plan who retires on his normal retirement date is the accrued benefit (as defined in the pension plan) at December 31, 1988, plus 1.25% of average compensation multiplied by years of service from January 1, 1989. Average compensation is defined as the average compensation during the ten years immediately preceding the date of determination or actual employment, whichever is less. Compensation means the total amount paid to an employee during the year including bonuses, commissions, and overtime pay, but excluding reimbursed expenses, group insurance benefits and pension and profit sharing contributions. There are provisions in the pension plan for early retirement with reduced benefits. There is no vesting of benefits until a participant has five or more years of credited service or upon reaching age 65 without regard to credited service. Effective January 1, 2004, the pension plan was frozen and no additional benefits accrue under the plan after this date. New hires to the Company are not eligible to participate in the frozen pension plan.

The pension plan is subject to the minimum funding requirements of the Employee Retirement Income Security Act of 1974, or ERISA. Senior management eligible under the pension plan receive the same benefits as all employees.

*Profit Sharing Plan.* All employees of the Company who satisfy the plan's eligibility conditions participate in our profit sharing plan. Contributions are determined annually based on a formula that includes growth in net income and return on average assets. Contributions under the profit sharing plan are reviewed by the compensation committee and are subject to their discretion and recommendation for approval by the board of directors. The compensation committee oversees the administration of the profit sharing plan. Effective January 1, 2002, we added a 401(k) feature to our profit sharing plan which allows the participants to make pre-tax contributions to the plan. Effective January 1, 2004, the plan includes a safe harbor Company match equal to 100% of each participant's deferral contributions not exceeding 3% of the participant's compensation, plus 50% of each participant's deferral contributions in excess of 3% but not in excess of 5% of the participant's compensation.

Under the profit sharing plan, contributions by employees are not required as a condition of participation. Each participating employer's annual contribution is allocated among the accounts of the eligible plan participants, in the ratio that each participant's compensation bears to the total compensation of all eligible participants. Compensation is defined as the total amount paid to an employee during the year, including bonuses, commissions, and overtime pay, but excluding reimbursed expenses, group insurance benefits and pension and profit sharing contributions. However, the Internal Revenue Service limits the compensation amount used to calculate a participant's benefit to a maximum of \$230,000 (adjusted annually by the IRS). Additionally, the annual addition amount (which is the aggregate of employer and employee contributions) that may be allocated to a participant is limited to \$46,000 (adjusted annually by the IRS). For employees over the age of 50, this limit increased by \$5,000.

Our profit sharing plan includes an employee stock ownership plan (ESOP) feature whereby participants are given the option to receive cash dividends on these shares in cash or reinvest the dividends in additional shares.

The profit sharing plan provides for benefits to vest in graduated percentages, with benefits being fully vested after six years of credited service except for amounts contributed to an employee's account under the safe harbor provisions and shares resulting from the reinvestment of dividends in the ESOP which are immediately fully vested. Generally, an employee's benefit will be the contributions allocated to his account while a participant, increased by gains and decreased by losses from investments of the trust, and increased by any forfeitures allocated to his account. An employee is always fully vested with respect to any voluntary contributions he makes. The plan also provides for immediate vesting upon attainment of normal retirement age and upon death or disability. If a participant terminates employment for any other reason, the total amount of his employee contribution account and the vested portion of his employer contribution account become distributable.





Senior management eligible for participation in the plan receive the same benefits as all employees. The maximum employer profit sharing contribution to the plan for an individual in a single year is 15% of the individual's salary, plus the safe harbor Company match, subject to IRS limits.

*Make Whole Plan.* Effective January 1, 2005, the Board of Directors of the Company adopted a make whole program whereby executives, whose Company contributions to the profit sharing plan and employer match under the 401(k) feature are limited due to IRS limitations, will have contributions made to a non-qualified plan equal to the amount under qualified plans as if there were no IRS limitations. This non-qualified plan uses the same contribution formula and vesting requirements as the 401(k) plan. This plan was implemented by the committee to allow senior management whose compensation was in excess of IRS limits to have profit sharing/401(k) matches proportionally equal for all employees.

*Severance Benefits.* We believe that companies should provide reasonable severance benefits to employees. With respect to senior management, these severance benefits should reflect the fact that it may be difficult for employees to find comparable employment within a short period of time. Our policy for all employees provides that full-time employees who are discharged due to a restructuring or layoff are eligible to receive severance pay based on their years of service to the Company. The Company will provide one week of severance pay for each year of employee service, up to a maximum of six months, except that in all cases, severance pay will not be less than four weeks pay. In order to receive severance pay, an employee must sign a release of claims in favor of the Company. Employees who do not sign the required release form will not receive severance pay.

*Change of Control/Executive Recognition Agreement.* In April 1996, our board of directors unanimously approved an executive recognition plan. This plan enabled us to offer our key executive officers and those of our subsidiaries an executive recognition agreement. All of our named executive officers have entered into executive recognition agreements with us.

We believe our executive recognition agreements are conservative when compared to the competitive market. The agreements have been continually renewed since we view them as necessary to ensure the continued focus of our executives on making the appropriate strategic decisions for the Company even if the decision involves a change in control.

Each executive recognition agreement provides severance benefits for each executive officer if, within two years following a change in control, his/her employment with us or our subsidiaries is terminated (i) by us or the subsidiary bank for any reason other than for cause, except for termination as a result of the officer's death, disability or retirement; or (ii) by the executive officer for good reason.

As used in the agreement, a change of control means:

a person or entity directly or indirectly acquires securities of the Company representing more than 50% of the combined voting power entitled to vote generally in the election of directors of the then outstanding securities of the Company; or

any person or entity commences a tender offer or exchange offer to acquire any common stock of the Company (or securities convertible into common stock) for cash, securities or any other consideration in which after consummation of the offer, the person or entity directly or indirectly acquires beneficial ownership of securities of the Company representing more than 50% of the combined voting power entitled to vote generally in the election of directors of the then outstanding securities of the Company; or

the stockholders of the Company approve a reorganization, merger, consolidation, recapitalization, exchange offer, purchase of assets or other transaction, in each case, with respect to which the persons who were the beneficial owners of the Company immediately prior to such a transaction do not immediately after its completion, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged, recapitalized or resulting company's then outstanding securities; or

the stockholders of the Company approve a liquidation or dissolution of the Company; or



the Company sells or otherwise transfers (or one or more of its subsidiaries, sell or otherwise transfer), in one or more related transactions, assets aggregating 50% or more of the book value of the assets of the Company and its subsidiaries (taken as a whole).

As used in the agreement, **cause** means termination of an employee due to the:

willful and continued failure by the employee to substantially perform his duties with the Company (other than any such failure resulting from the employee's physical or mental incapacity due to injury or illness) after written demand for substantial performance is delivered to the employee by the Company, or

willful engaging by the employee in conduct which is demonstrably injurious to the Company, monetarily or otherwise.

As used in the agreement, **good reason** means termination by an employee due to:

a determination by the employee, made in good faith and based on the employee's reasonable belief, that there has been a materially adverse change in his status or position as an executive officer of the Company as in effect immediately prior to the change in control, including, without limitation, any material change in the employee's status or position as a result of a diminution in the employee's duties or responsibilities or the assignment to the employee of any duties or responsibilities which are inconsistent with his status or position, or any removal of the employee from or failure to reappoint or reelect the employee to such position; or

a material reduction by the Company in the employee's annual base salary in effect immediately prior to the change in control; or

the relocation of the employee's principal office outside of the city or metropolitan area in which the employee is residing at the time of any change in control; or

a material reduction by the Company in the budget over which the employee retained authority immediately prior to change of control; or

the failure by the Company to continue in effect any benefit plan in which the employee participates at the time of the change in control other than as a result of the normal expiration of any such plan in accordance with its terms as in effect at the time of the change in control; or

any action or inaction by the Company following a change in control that constitutes a material breach of the agreement under which the employee provides services to the Company; or

any purported termination of the employee not effected pursuant to a notice of termination as required by the executive recognition agreement; or

the failure by the Company to provide and credit the employee with the number of paid vacation days to which the employee is then entitled in accordance with the Company's normal vacation policy as in effect immediately prior to the change in control; or

the failure by any successor corporation to the Company to assume the executive recognition agreement.

Such severance benefits under the executive recognition agreements provide that the executive officer will receive a payment equal to a certain percentage (as set forth in his executive recognition agreement) of his annual base salary immediately preceding the date of termination. The percentage of annual base salary to be received upon a change in control pursuant to his executive recognition agreement is 208%. The total severance payment for the executive officer cannot, however, exceed the amount that would cause such payment to be deemed a parachute payment under

Section 280G of the Internal Revenue Code.

Each executive recognition agreement has a term of two years. However, if a change in control occurs during the original term of the executive recognition agreements, then the executive recognition agreements will continue in effect for an additional period of two years following the change in control. Similarly, if a second change in control occurs within two years from the date of the first change in control, then the executive recognition agreements will continue in effect for a period of two years from the date of the second change in control. The agreements include confidentiality obligations, but do not bind the executives to non-competition, non-disparagement or non-solicitation clauses.

These executive recognition agreements were renewed in July 2008 with changes only to comply with newly issued Internal Revenue Service regulations affecting such plans. We expect that these executive recognition agreements will be renewed upon maturity in July 2010.

Amounts that would be paid under these agreements upon a change of control or termination for good reason using base salary information as of December 31, 2008 for the named executive officers would be as follows:

Name	Amount
F. Scott Dueser, President and CEO	\$ 988,000
J. Bruce Hildebrand, Executive Vice President & CFO	\$ 634,000
Gary L. Webb, Executive Vice President	\$ 551,000
Gary S. Gragg, Executive Vice President	\$ 374,000

*Perquisites and Other Benefits.* We annually review the perquisites that senior management receives. The primary perquisites for senior management are the reimbursement of initiation fees and dues for one golf or social club. We seek to encourage our senior management to belong to a golf or social club so that they have a convenient entertainment forum for customers and to facilitate interaction with current and potential customers, many of whom belong to these clubs. We do not permit personal use of our Company airplane.

Senior management also participates in the Company's other benefit plans on the same terms as other employees. These plans include medical, life insurance and flex spending account benefits. Relocation benefits also are reimbursed but are individually negotiated when they occur.

#### **Compensation Tables**

For 2008, only four of our executives meet the conditions of a named executive officer (NEO) requiring disclosure. The following tabular disclosures are presented for the following named executive officers:

F. Scott Dueser	Chairman, President and Chief Executive Officer (Mr. Dueser's appointment as Chairman of the Board was effective January 1, 2008)	J. Bruce Hildebrand	Executive Vice President and Chief Financial Officer
Gary L. Webb	Executive Vice President	Operations	
Gary S. Gragg	Executive Vice President	Loans	

**Summary Compensation Table**

The following table summarizes the total compensation for our named executive officers in 2008, 2007 and 2006:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Earnings (\$)	All Other Compensation (\$)	Total (\$)
F. Scott Dueser, President/CEO	2008	468,333			15,537	40,375	51,407	36,165	611,817
	2007	430,833			15,131		46,999	34,485	527,488
	2006	405,833	15,000		10,497	20,664	36,888	26,442	515,324
J. Bruce Hildebrand, EVP/CFO	2008	300,000			8,446	25,925	10,649	36,165	381,185
	2007	270,833			8,192		9,630	34,485	323,140
	2006	246,667			5,401	12,600	5,306	26,446	296,420
Gary L. Webb, EVP	2008	261,666			8,446	22,525	4,608	36,165	333,410
	2007	242,166			8,192		4,492	34,485	289,335
	2006	226,333			5,401	11,491	2,197	26,446	271,868
Gary S. Gragg, EVP	2008	177,500			7,096	5,400	893	25,826	216,715
	2007	162,500			6,843		2,307	23,529	195,179
	2006	146,667			4,139	7,560	2,150	16,395	176,911