

TFS Financial CORP
Form DEF 14A
January 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

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

TFS FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To our Stockholders:

The 2012 annual meeting of stockholders of TFS Financial Corporation (the Company) will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 23, 2012, at 9:00 a.m., local time, for the following purposes:

1. To elect five directors, two to hold office for two-year terms and three to hold office for three-year terms, each until his or her successor has been duly elected and qualified;
2. To ratify the selection of Deloitte & Touche LLP as the Company's independent accountant for the Company's fiscal year ending September 30, 2012; and
3. To transact all other business that properly comes before the meeting.

Only stockholders of record at the close of business on December 27, 2011 will be entitled to notice of and to vote at the meeting or any adjournment thereof. You are invited to attend the annual meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting to vote your shares. Instead, you may simply complete, date and sign the available proxy card and return it to the Company. Alternatively, you may vote via telephone or over the Internet.

All stockholders of record entitled to vote at the annual meeting should receive a Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability). The Notice of Internet Availability will instruct you as to how you may access and review all of the important information contained in the proxy materials. If you received a Notice of Internet Availability by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability. The principal address of the Company is 7007 Broadway Avenue, Cleveland, Ohio 44105.

By order of the Board of Directors,

David S. Huffman

Secretary

January 9, 2012

**YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND RETURN THE AVAILABLE
PROXY CARD OR VOTE VIA TELEPHONE OR OVER THE INTERNET.**

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TFS FINANCIAL CORPORATION

7007 Broadway Avenue

Cleveland, Ohio 44105

PROXY STATEMENT

Our Board of Directors is providing this proxy statement to ask for your vote as a stockholder of TFS Financial Corporation (the Company, we, us or our) on certain matters to be voted on at our upcoming annual meeting of stockholders, which will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 23, 2012, at 9:00 a.m., local time. We are making these proxy materials, along with our 2011 Annual Report to Stockholders, available to you electronically on or about January 9, 2012.

ABOUT THE MEETING

What Is the Purpose of the Annual Meeting of Stockholders?

At our annual meeting of stockholders, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of five directors and a proposal to ratify the selection of Deloitte & Touche LLP as the Company's independent accountant for the Company's fiscal year ending September 30, 2012. We are not aware of any other matter that will be presented for your vote at the meeting.

Who Is Entitled to Vote?

Only stockholders of record at the close of business on the record date, December 27, 2011, are entitled to receive notice of and to vote the shares of our common stock that they held on the record date at the meeting, or any postponement or adjournment of the meeting. Each outstanding share of common stock entitles its holder as of the record date to cast one vote on each matter acted upon at the meeting. As of the record date, the Company had outstanding 308,915,893 shares of common stock.

What if My Shares Are Held in the Third Federal Savings Associate Stock Ownership Plan or the Third Federal Savings 401(k) Savings Plan?

If you are a participant in the Third Federal Savings Associate Stock Ownership Plan (the ASOP) or the Third Federal Savings 401(k) Savings Plan (the 401(k) Plan) and you own shares of our common stock through those plans, you have been provided voting instruction forms with respect to shares you may vote under those plans. Although the trustee or administrator for each plan votes all shares of our common stock held by that plan, each participant may direct the trustee or administrator how to vote the shares of our common stock allocated to his or her plan account. You must provide voting instructions to the trustee or administrator by February 18, 2012 for them to be effective. If you own shares of our common stock through either of these plans and do not provide voting instructions to the trustee or administrator by February 18, 2012, the respective trustee or administrator will vote the shares of common stock in accordance with the terms of the respective plans, which provide that the trustee or administrator will vote any shares of our common stock for which it has received no voting instructions in the same proportions as it votes the shares of our common stock for which it has received instructions from plan participants. You also may revoke previously given voting instructions prior to February 18, 2012 by filing with the trustee or administrator either written notice of revocation or a properly completed voting instruction form bearing a later date.

Who Can Attend the Meeting?

Only stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Please note that if you hold your shares in street name (that is, through a broker or other nominee), your name does not appear in the Company's records, and you will need to bring to the annual meeting a copy of your brokerage statement reflecting your ownership of shares of our common stock as of the record date in order to be admitted.

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When and Where Is the Meeting?

The meeting will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 23, 2012, at 9:00 a.m., local time. Parking is available in our visitor parking lot, which you can enter from Aetna Avenue.

What Constitutes a Quorum?

The presence at the meeting, either in person or by proxy, of the holders of a majority of the shares of our common stock outstanding on the record date will represent a quorum, permitting the conduct of business at the meeting. Proxies received by the Company but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting for purposes of establishing a quorum. A broker non-vote occurs if your shares are held in street name by a broker or nominee and the broker or nominee reports your shares as non-votes because you did not provide your broker or nominee with voting instructions for your shares.

What Vote Is Required to Approve Each Proposal, Assuming that a Quorum Is Present at the Annual Meeting of Stockholders?

Proposal One: Election of Directors. The five nominees for director who receive the greatest number of affirmative votes will be elected directors, and abstentions and broker non-votes will not count as votes for any nominee for director.

Proposal Two: Ratification of the Selection of Deloitte & Touche LLP as the Company's Independent Accountant. The Audit Committee of our Board of Directors plans to reappoint Deloitte & Touche LLP as the Company's independent accountant to audit our financial statements for the fiscal year ending September 30, 2012, subject to the ratification of the appointment by our stockholders as required by our bylaws. See page 40 under Proposal Two: Ratification of the Selection of Deloitte & Touche LLP as the Company's Independent Accountant for additional information. If a majority of votes cast on this proposal are cast in favor of approval, the proposal will be approved. Abstentions will be treated as cast and will have the same effect as a vote against ratification. Broker non-votes are not considered votes cast and will not be counted either for or against ratification.

How Does Third Federal Savings and Loan Association of Cleveland, MHC Intend to Vote Its Shares?

All stockholder votes will include the vote of Third Federal Savings and Loan Association of Cleveland, MHC, which, as of December 27, 2011, owned 227,119,132 shares, or 73.52%, of our outstanding common stock. **As such, the vote of Third Federal Savings and Loan Association of Cleveland, MHC will be determinative of the outcome of any vote or election. Third Federal Savings and Loan Association of Cleveland, MHC intends to vote for the election of the Board of Directors five nominees for director, to vote for ratification of the selection of Deloitte & Touche LLP, and to vote in accordance with the recommendation of our Board of Directors on any other matter that properly comes before the meeting.**

How Do I Vote?

You may cast your vote in person at the meeting or in any one of the following ways:

By Telephone: You may call the toll-free number printed on the accompanying proxy card. Follow the simple instructions and use the personalized control number printed on your Notice of Internet Availability in order to vote your shares. You will be able to confirm that your vote has been properly recorded. Telephone voting is available 24 hours a day. If you vote by telephone, you should not return a proxy card.

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Over the Internet: You may visit the web site printed on the accompanying proxy card. Follow the simple instructions and use the personalized control number printed on your Notice of Internet Availability in order to vote your shares. You will be able to confirm that your vote has been properly recorded. Internet voting is available 24 hours a day. If you vote over the Internet, you should not return a proxy card.

By Mail: You may mark, sign and date the accompanying proxy card and return it to the address provided on the proxy card.

If you sign, date and return the accompanying proxy card or vote by telephone or via the Internet, the shares of common stock represented by your proxy will be voted as you specify. If you return a signed and dated proxy card, but do not indicate how your shares of common stock should be voted, the shares of common stock represented by your proxy will be voted to elect the directors set forth under the caption "Election of Directors" and for ratification of the selection of Deloitte & Touche LLP as the Company's independent accountant to audit our financial statements for the fiscal year ending September 30, 2012.

Will My Shares Be Voted if I Do Not Provide Instructions to My Broker?

If you are the beneficial owner of shares held in "street name" by a broker or other nominee, the broker or other nominee, as the record holder of the shares, is required to vote those shares in accordance with your instructions. If you do not provide your broker or other nominee instructions as to how your shares are to be voted, your broker or other nominee will not be able to vote your shares on any of the matters discussed herein, and your shares will not be voted with respect to those matters. We urge you to provide instructions to your broker or nominee so that your vote may be counted on these important matters. You should vote your shares by following the instructions provided on the accompanying voting instructions card and return the voting instructions card to your broker or other nominee in a timely manner to ensure that your shares are voted on your behalf.

May I Revoke My Proxy or Change My Vote?

You may revoke or change your vote at any time before your proxy has been exercised by filing a written notice of revocation or a duly executed proxy bearing a later date with the Company at the Company's principal address indicated on the attached Notice of Annual Meeting of Stockholders, by submitting another timely, later-dated vote by telephone or Internet or by giving notice of revocation to the Company in open meeting. However, your presence at the annual meeting alone will not be sufficient to revoke your previously-granted proxy or vote.

How Will the Proxy Solicitation Be Conducted?

This solicitation of proxies is made by and on behalf of our Board of Directors. The cost of the solicitation of your proxy will be borne by the Company. In addition to solicitation of proxies by mail and electronically, officers and regular associates of the Company may solicit proxies in person, by telephone or by facsimile. These officers and associates will not receive any additional compensation for their participation in the solicitation process.

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You will be voting on the election of five directors at the annual meeting of stockholders. On March 17, 2011, the Board elected Robert B. Heisler, Jr. and Terrence R. Ozan as directors to fill vacancies. As required by the Company's bylaws, each of Messrs. Heisler and Ozan will serve until the 2012 annual meeting of stockholders, when each will stand for re-election.

The Company's bylaws require that the Board be divided into three classes as nearly equal in number as possible. In order to divide the classes of directors as evenly as possible, each of Messrs. Heisler and Ozan, if elected, will serve a two-year term expiring in 2014, and until his successor is elected and qualified. Each of Messrs. Asher and Kobak and Ms. Piterans, if elected, will serve a three-year term expiring in 2015, and until his or her successor is elected and qualified. At the meeting, unless you specify otherwise, the shares of common stock represented by your proxy will be voted to re-elect Anthony J. Asher, Robert B. Heisler, Jr., Bernard S. Kobak, Terrence R. Ozan and Marianne Piterans.

If for any reason any of the nominees is unable to serve as a director at the time of the election (which is not expected), the shares of common stock represented by your proxy will be voted for the election of a substitute nominee recommended by our Board of Directors, acting as our nominating committee, if the Board makes any such recommendation.

The following table sets forth information regarding our directors:

Name	Age	Position(s) Held in		Director Since	Term of Office Expires
		TFS Financial Corporation			
Nominees for Director					
Anthony J. Asher	73	Director		2008	2012
Robert B. Heisler, Jr.	63	Director		2011	2012
Bernard S. Kobak	83	Director, Officer		1993	2012
Terrence R. Ozan	65	Director		2011	2012
Marianne Piterans	57	Director of Human Resources and Director		2006	2012
Directors Continuing in Office					
Martin J. Cohen	58	Director		2006	2013
Robert A. Fiala	58	Director		2005	2013
William C. Mulligan	58	Director		2007	2014
Paul W. Stefanik	87	Director		1993	2014
Ben S. Stefanski III(1)	39	Director		2010	2013
Marc A. Stefanski	57	Chairman of the Board, President, Chief Executive Officer and Director		1987	2013

(1) Ben S. Stefanski III is the nephew of Marc A. Stefanski.

Our Board of Directors recommends that stockholders vote FOR the nominees for election set forth above.

Business Experience of Each Nominee for Director

Anthony J. Asher is the Chairman of Weston, Inc., a real estate ownership firm that is one of the largest industrial property owners in the Cleveland, Ohio area, and which Mr. Asher founded in 1971. Mr. Asher also founded one of the largest title agencies in the Cleveland area. This experience, combined with his background as an entrepreneur, provides invaluable skills used in his service on the Board and the Audit and Compensation Committees.

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Robert B. Heisler, Jr. retired as the Dean of Kent State University's Business School in October of 2011, a position he held since 2008. Prior to that appointment, he served as a Special Advisor to the University President. Mr. Heisler retired as Chairman of KeyBank, N.A. in 2007 after 37 years in the banking industry. Prior to his role as Chairman, Mr. Heisler served as Senior Managing Director of Key Capital Partners and held various positions throughout the organization, overseeing investment banking, brokerage, asset management, private banking and investment research. Mr. Heisler is a director of FirstEnergy Corp. and Myers Industries and holds leadership positions in many Northeast Ohio community organizations. Mr. Heisler's extensive business and banking experience enhance the risk management and oversight functions of the Board and are important to his service on the Board and the Enterprise Risk Management Committee.

Bernard S. Kobak joined Third Federal Savings and Loan in 1958 and has served as Executive Vice President since 1963. Mr. Kobak's many years of service in various areas of Third Federal Savings and Loan bring knowledge of the financial, operational and regulatory challenges that the Company faces.

Terrence R. Ozan serves on the board of directors of Capgemini, Cohesant Inc. and a privately held chemical manufacturer and supplier. Mr. Ozan served as Chief Executive Officer of North American operations and was an executive member of the Capgemini Global Management Committee prior to his retirement in 2003. Prior to the formation of Capgemini in 2000, Mr. Ozan was the Chief Executive Officer of worldwide consulting services for Ernst & Young and served on various boards and governance committees. In his nearly 30 year career at Ernst & Young, Mr. Ozan also directed many different domestic business units of the organization. Mr. Ozan's extensive business and banking experience enhance the risk management and oversight functions of the Board and are important to his service on the Board and the Enterprise Risk Management Committee.

Marianne Piterans is Director of Human Resources, Training, Security and Administrative Services for Third Federal Savings and Loan. Prior to joining Third Federal Savings and Loan in 1992, Ms. Piterans served as Senior Vice President of Society National Bank, where she worked for 20 years. Ms. Piterans brings a strong knowledge of the employees and communities served by the Company, which provides a unique perspective to the Board.

Business Experience of Each Continuing Director

Martin J. Cohen has been a managing partner of H & M Management Company, a real estate management company, since 1975 and is manager and part owner of eight apartment complexes. He has managed and owned other commercial and single family properties. Mr. Cohen also has previous financial-related experience in the banking industry and has maintained leadership positions in various trade and community organizations. These skills provide a useful resource in his service on the Board and the Audit Committee.

Robert A. Fiala is president of the architecture firm ThenDesign, which he founded in 1989. He is also a member of the Willoughby, Ohio, City Council, where he currently serves as Council Vice President. Mr. Fiala is a current and past board member of several local nonprofit institutions. Mr. Fiala's management and business experience in operating his own company and his extensive civic and community responsibilities bring extensive knowledge and business acumen, as well as knowledge of the local community served by the Company, to his service on the Board and the Compensation Committee.

William C. Mulligan has served as a managing director of Primus Capital Funds, a private equity firm, since 1987. Mr. Mulligan joined Primus Capital Funds in 1985 from McKinsey & Company, Inc., an international management consulting firm. Mr. Mulligan serves as a director of several private companies and one public company, Universal Electronics, Inc. Mr. Mulligan's exposure to a wide range of companies and strategic acquisitions provides extensive business, financial and risk management skills that are important to his service on the Board and the Audit and Compensation Committees.

Paul W. Stefanik worked for Third Federal Savings and Loan for 30 years prior to his retirement in 1993. In 1987, Mr. Stefanik was appointed Executive Vice President of Branch Administration, a position he held until his

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retirement. Mr. Stefanik's many years of service in various areas of Third Federal Savings and Loan bring knowledge of the financial, operational and regulatory challenges faced by the Company and are important to his service on the Board and the Audit Committee.

Ben S. Stefanski III is currently Director of Direct Sales at Patagonia, Inc., a \$320 million outdoor retail company. Mr. Stefanski has been employed by Patagonia, Inc. since 2001 and has led a number of teams, including Patagonia, Inc.'s call centers and inventory groups. Mr. Stefanski has previously served on the board of the Third Federal Foundation. He is the nephew of Marc A. Stefanski and grandson of Ben and Gerome Stefanski, the founders of Third Federal Savings and Loan. Mr. Stefanski provides a retail business perspective that is important to his service on the Board and the Enterprise Risk Management Committee.

Marc A. Stefanski joined Third Federal Savings and Loan in 1982 and was elected Chairman of the Board and Chief Executive Officer in 1988, succeeding his father in these positions. He was elected President of Third Federal Savings and Loan and the Company in 2000. Mr. Stefanski's parents, Ben and Gerome Stefanski, founded Third Federal Savings and Loan in 1938. Mr. Stefanski's values, leadership skills, extensive experience overseeing the growth of Third Federal Savings and Loan and the Company and extensive knowledge of the industry, the Company and the community are considered valuable assets to the Board.

CORPORATE GOVERNANCE

Meetings of the Board of Directors

During the fiscal year ended September 30, 2011, our Board of Directors met 12 times and the board of directors of Third Federal Savings and Loan, which consists of the same directors as our Board of Directors, met 12 times. During the fiscal year ended September 30, 2011 or such period during the fiscal year as an individual may have served as a director, no director attended fewer than 75% of the total number of meetings of our Board of Directors and the total number of meetings held by all committees on which the director served. The Company anticipates that all of its directors will attend the annual meeting of stockholders. All directors serving at the time of last year's annual meeting attended that meeting, except for Mr. Mulligan, who was unable to attend. Our Board of Directors has established various standing committees, including an Audit Committee, Compensation Committee, Executive Committee and Enterprise Risk Management Committee. The full Board of Directors acts as the Company's nominating committee.

Independent Directors

A majority of our Board of Directors and all members of the Audit Committee, Compensation Committee and Enterprise Risk Management Committee are independent, as affirmatively determined by our Board of Directors consistent with the criteria established by the NASDAQ Stock Market.

Our Board of Directors conducts an annual review of director independence for all current nominees for election as directors and all continuing directors. In connection with this review, our Board of Directors considers all relevant facts and circumstances relating to relationships that each director, his or her immediate family members and their related interests had with the Company and its subsidiaries.

As a result of this review, our Board of Directors affirmatively determined that nominees Asher, Heisler and Ozan and continuing directors Cohen, Fiala, Mulligan, Stefanik and Stefanski III are independent. Our Board of Directors determined that nominees Kobak and Piterans and continuing director Stefanski are not independent because they are associates of the Company.

Board Leadership Structure and Risk Oversight

Pursuant to the Company's bylaws, the Board of Directors is responsible for the selection of a Chairman of the Board and a President of the Company, and may further designate the Chairman of the Board as an officer.

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Mr. Stefanski currently serves as our Chairman of the Board, President, and Chief Executive Officer. The Board of Directors believes that this structure provides the optimal leadership model for us. Combining the Chairman of the Board and President and Chief Executive Officer roles fosters accountability, effective decision-making and alignment between interests of the Board of Directors and management. Mr. Stefanski also is able to use the in-depth focus and perspective gained in his executive function to assist our Board of Directors in addressing both internal and external issues affecting the Company. This structure also allows a single person to act as a spokesperson for the Company and to represent and speak on our behalf to our customers, employees and regulators. It also best leverages Mr. Stefanski's unique attributes and heritage as his family's name and history are an important part of our brand image.

While the Board of Directors does not have a lead independent director, we feel that having a majority of independent directors, a discrete and independent committee system and periodic meetings of non-management directors in executive session permits the Board to maintain effective oversight of the Company's management. Nevertheless, the Board of Directors periodically reviews its leadership structure to ensure that it meets the Company's needs. In fiscal year 2011, the Board met in this capacity to approve a director succession plan and a management succession plan.

Our Board of Directors assists in monitoring the risks inherent in the Company's business model and internal operations, including risk relating to changes in interest rates, risk relating to the Company's investments, risk relating to the Company's lending activities and risks arising from the Company's compensation policies and practices.

Because a majority of the Company's assets and liabilities are monetary in nature, the Company's most significant form of risk, and thus the risk most important to manage, is interest rate risk. In general, our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, the Board of Directors has established risk management guidelines and an Asset/Liability Management Committee consisting of members of management. This committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. The committee meets quarterly, and more frequently if necessary, and provides reports of its proceedings to the Board of Directors.

The Company is also exposed to risk from the assets in which it invests. As part of its risk oversight, the Board of Directors is responsible for establishing and overseeing the Company's investment policy, which is reviewed at least annually by management, and any changes to the policy are subject to approval by the Board of Directors. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, and consistency with our interest rate risk management strategy. Third Federal Savings and Loan also maintains an Investment Committee made up of members of management, which oversees investing activities and strategies and policies. The committee meets quarterly, or more frequently as necessary, and provides reports of its proceedings to the Board's Executive Committee.

A third category of risk to which the Company is exposed is risk from its lending activities. As part of its risk oversight, the Board of Directors has established underwriting standards and loan origination procedures, including loan approval limits. The Board of Directors has delegated authority to its Executive Committee to review and assign lending authority to certain individuals of the Company to consider and approve loans within their designated authority.

Pursuant to a memorandum of understanding entered into between the Company and its former primary regulator, the Office of Thrift Supervision, the Board of Directors engaged Promontory Financial Group, LLC (Promontory) to review and assess the Company's risk management organization, structure, programs and

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practices. The review and assessment focused on credit risk, market, interest rate, liquidity and operational risk, including compliance risk. The Board considered and directed that management implement the recommendations presented by Promontory to decrease the Company's exposure to these areas of risk.

On April 28, 2011, the Board of Directors formed an Enterprise Risk Management Committee to oversee the Company's risk management processes and delegated to it responsibilities with respect to risk management oversight, including responsibilities with respect to interest rate, investing and lending risk. Although it does not directly supervise the Company's Investment Committee or Asset/Liability Management Committee, the Enterprise Risk Management Committee is responsible for the regular review of their guidelines, policies and deliberations. The Committee also reviews the Company's strategies, policies and practices to identify, assess, report and manage risk exposures and considers similar risk assessments presented to it by the Company's internal management risk committee.

On a more general level, the Audit Committee is also involved in the risk management process, as it annually reviews and approves the processes used by our internal audit department in developing our annual risk assessment, discusses any areas of high risk identified during an audit, inquires into significant risks facing the Company, and independently discusses with management the Company's policies with respect to risk assessment and risk management.

As part of our bonus program, the Compensation Committee has negative discretion to reduce the amount payable from the incentive pool based on certain measures, including interest rate risk and credit risk. In addition, the Company uses only non-commissioned associates to gather loan applications and underwrite and process loan requests. These measures are designed to reduce incentives for employees to cause the Company to take undue risk.

Our management has assessed our compensation policies and practices and has concluded that they are not reasonably likely to have a material adverse effect on the Company.

Executive Session

The non-management directors of our Board of Directors meet periodically in executive session.

Committee Membership and Roles

The following table provides details with respect to committee membership and roles as of September 30, 2011:

	Audit(1)	Compensation	Executive	Risk Management	Nominating
William C. Mulligan	þ(2)(3)	þ	þ		þ
Anthony J. Asher	þ	þ			þ
Martin J. Cohen	þ				þ
Paul W. Stefanik	þ				þ
Robert A. Fiala		þ(2)			þ
Marc A. Stefanski			þ(2)		þ
Bernard S. Kobak			þ		þ
Robert B. Heisler, Jr.				þ(2)	þ
Terrence R. Ozan				þ	þ
Ben S. Stefanski III				þ	þ
Marianne Piterans					þ

(1) - The Audit Committee also serves as our Qualified Legal Compliance Committee.

(2) - Committee chairperson.

(3) - Mr. Mulligan also serves as our audit committee financial expert.

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Audit Committee

The Audit Committee consists of Messrs. Mulligan (Chairman), Asher, Cohen and Stefanik. The Audit Committee is responsible for providing oversight relating to our financial statements and financial reporting process, systems of internal accounting and financial controls, internal audit function, annual independent audit and the compliance and ethics programs established by management and our Board of Directors. The Audit Committee also serves as our Qualified Legal Compliance Committee. Each member of the Audit Committee is independent in accordance with the listing standards of the NASDAQ Stock Market and under Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended. Our Board of Directors has determined that Mr. Mulligan is an audit committee financial expert as that term is defined by the rules and regulations of the Securities and Exchange Commission. The Audit Committee met nine times during the fiscal year ended September 30, 2011.

A current copy of the Audit Committee's charter is available on the Company's web site, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Compensation Committee

The members of the Compensation Committee of the Board of Directors (the Committee) are Messrs. Fiala (Chairman), Asher and Mulligan. All three members of the Committee served on the Committee throughout the fiscal year ended September 30, 2011, during which the Committee held five meetings.

The Committee is responsible for assisting our Board of Directors in the following primary areas:

Reviewing and approving the goals and objectives relevant to the compensation of the Chief Executive Officer and the Company's other executive officers and ensuring those goals are aligned with the Company's short- and long-term objectives;

Reviewing, at least annually, the structure and compensation opportunities available under the Company's executive and associate compensation plans in light of the Company's goals and objectives;

Evaluating the risks arising from the Company's compensation policies and practices to determine whether they are reasonably likely to have a material adverse effect on the Company;

Reviewing and approving salary, annual and long-term incentive compensation targets, performance objectives and payments for the executive officers of the Company;

Evaluating, at least annually, the performance of the executive officers in light of the Company's strategic plan and the goals and objectives of the Company's executive compensation plans and establishing future compensation levels based upon this evaluation;

Reviewing and approving grants and awards to the executive officers and other participants under equity-based compensation plans, based on achievement of pre-determined goals and objectives;

Reviewing and approving compensation for members of our Board of Directors and any of its committees; and

Reviewing and approving any employment agreement or severance agreement to be made with any existing or prospective executive officer of the Company.

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The Committee engages a compensation consultant to assist in the design of the Company's compensation program and the review of its effectiveness.

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A copy of the Committee's charter is available on the Company's web site, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Executive Committee

The Executive Committee, which currently consists of Messrs. Stefanski (Chairman), Kobak and Mulligan, possesses the power of our Board of Directors during intervals between meetings of our Board of Directors in order to address various items, including approval of various policies and guidelines and significant agreements and contracts. The Executive Committee does not possess the power to fill vacancies on our Board of Directors or any Board of Directors committees. The Executive Committee held 13 meetings during the fiscal year ended September 30, 2011.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee consists of Messrs. Heisler (Chairman), Ozan and Stefanski III. The Enterprise Risk Management Committee is responsible for providing oversight and monitoring relating to our risk management practices, procedures and tolerances. The Enterprise Risk Management Committee was formed April 28, 2011 and met once during the fiscal year ended September 30, 2011.

A copy of the committee's charter is available on the Company's website, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Nominating Committee

Our Board of Directors has determined that the Company is a Controlled company, as defined by the NASDAQ Stock Market, because Third Federal Savings and Loan Association of Cleveland, MHC currently owns more than 50% of our common stock. Therefore, the full Board of Directors acts as our nominating committee and does not have a separate nominating committee charter. The Board of Directors met twice in this capacity during the fiscal year ended September 30, 2011. In that capacity, our Board of Directors elected Messrs. Heisler and Ozan to fill open Board positions in March 2011 and recommended a slate of nominees for election by stockholders at the Company's 2012 annual meeting of stockholders.

As set forth in our Policy and Procedures for Stockholder Recommendations for Director Candidates (the Policy), our Board of Directors will consider suggestions forwarded by stockholders to the Secretary of the Company concerning qualified candidates for election as directors. To recommend a prospective nominee for our Board of Directors' consideration, a stockholder may submit the candidate's name, qualifications and other pertinent information required by the Policy to the Company's Secretary at the following address: 7007 Broadway Avenue, Cleveland, Ohio 44105. To be timely, the submission must be received by the Secretary at least 150 days prior to the anniversary date of the proxy statement relating to the preceding year's annual meeting of stockholders.

Under our bylaws, no nomination for director, except one made by the Board of Directors, will be voted upon unless the nomination is made in writing and delivered to the Company's Secretary at least 30 days prior to the date of the annual meeting. Upon delivery, a nomination will be posted in a conspicuous place in each office of the Company. Ballots bearing the names of all persons nominated by the Board of Directors and by stockholders will be provided for use at the annual meeting. If the Board of Directors fails or refuses to act in regard to nominations for directors at least 20 days prior to the annual meeting, nominations for directors may be made at the annual meeting by any holders of shares of common stock entitled to vote, and will be voted upon.

Our Board of Directors has recommended for election each of the nominees identified in Proposal One: Election of Directors on page 4.

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A current copy of our Policy and Procedures for Stockholder Recommendations for Director Candidates is available on the Company's web site, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Our Board of Directors has not established specific minimum qualifications that a candidate must have in order to be recommended for election to our Board of Directors. However, in determining qualifications for new directors, our Board of Directors will consider a potential member's qualification as independent under the NASDAQ Stock Market listing standards, as well as his or her age, skill and experience in the context of the needs of the Board of Directors. Our Board of Directors does not have a specific policy with regard to its consideration of diversity of its directors, although diversity is one of many factors taken into account when considering potential candidates to serve on the Board of Directors.

When evaluating a candidate, the Board of Directors considers those attributes most likely to serve the interests of the Company and its stockholders. Those characteristics will ideally reflect a balance of professional and personal backgrounds that contribute to the Board of Directors' performance of its functions in the highly competitive and closely regulated business in which the Company operates. If the Board of Directors believes that a potential candidate may be an appropriate nominee to the Board, the Board seeks to learn more about the candidate's qualifications, background and interest in serving on the Board, and the candidate has the opportunity to learn more about us, the Board and its governance practices.

Code of Conduct and Code of Ethics

The Company has adopted policies governing the activities of both the Company and Third Federal Savings and Loan, including a code of conduct and a code of ethics for senior financial officers. The code of conduct applies to all associates and directors, and addresses conflicts of interest, the treatment of confidential information, general associate conduct and compliance with applicable laws, rules and regulations. The code of ethics for senior financial officers applies to the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer, and addresses adherence to standards of integrity and professionalism when conducting and reporting the Company's financial affairs. In addition, the codes are designed to deter wrongdoing and to promote honest and ethical conduct, full and accurate disclosure and compliance with all applicable laws, rules and regulations. The codes are posted on the Company's web site, www.thirdfederal.com, under Investor Relations. Any waiver of any provision of either code granted to an executive officer or director may be made only by our Board of Directors. There were no waivers granted during fiscal year 2011.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reporting practices on behalf of our Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Company's independent accountant is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America.

The Audit Committee has:

Reviewed and discussed with management the audited financial statements of the Company contained in its Annual Report on Form 10-K for the fiscal year ended September 30, 2011;

Discussed with the Company's independent accountant the matters required to be discussed pursuant to Statement of Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

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Received the written disclosures and the letter from the Company's independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with the independent accountant the independent accountant's independence.

Based on the reviews and discussions described above, the Audit Committee recommended to our Board of Directors that the audited financial statements for the fiscal year ended September 30, 2011 be included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC").

Audit Committee

William C. Mulligan, Chairman

Anthony J. Asher

Martin J. Cohen

Paul W. Stefanik

EXECUTIVE COMPENSATION

Executive Summary

The Company again faced a challenging operating environment in fiscal year 2011. While recent financial and economic releases have not been as consistently negative, and some positive trends have been reported, much of the financial services industry remains relatively fragile and susceptible to the consequences of adverse financial conditions. Regionally high unemployment, weak residential real estate values, capital and credit markets that remain at less than robust levels, and a general lack of confidence in the financial service sector of the economy presented challenges for us. For fiscal year 2011, our net income decreased \$2.0 million, or 18% from fiscal year 2010, to \$9.3 million. This change is attributable mainly to a decrease in non-interest income and an increase in non-interest expense, partially offset by an increase in net interest income and a decrease in the provision for loan losses.

Compensation for our named executive officers reflected the continued challenging environment we faced in fiscal 2011:

Semiannual performance-based cash bonuses for named executive officers were not paid for the first half of the fiscal year;

No equity grants were made to the named executive officers in fiscal year 2011;

All stock options previously granted to the named executive officers were out-of-the-money at fiscal year-end; and

The named executive officers' base salaries were not increased for 2011 and, except for the base salary of David S. Huffman, our Chief Financial Officer, have not been increased since October 2008.

As discussed in more detail below, the Company continues to review and refine its compensation plans and programs in an effort to enable those plans and programs to support the achievement of the Company's strategic goals.

The Company has adopted the following practices:

It does not maintain employment agreements with any of the named executive officers;

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It does not maintain severance agreements with any of the named executive officers; and

In effect, it requires that the named executive officers hold restricted stock units granted to them prior to fiscal year 2012 until their retirement or other qualified termination of employment, even after such restricted stock units are vested.

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Compensation Discussion and Analysis

Overview

The following discussion and analysis should be read in conjunction with the information presented in the compensation and award tables, the footnotes to those tables and the related disclosures appearing later in this proxy statement. The tables and related disclosures contain specific information about the compensation earned or paid during the fiscal year ended September 30, 2011. The Committee engages a compensation consultant, Exequity LLP (the Compensation Consultant), to advise it on the Company's compensation programs.

The tables and related disclosures that follow cover the following individuals, whom we refer to as our named executive officers:

Marc A. Stefanski, Chairman of the Board, President and Chief Executive Officer;

John P. Ringenbach, Chief Operating Officer, Third Federal Savings and Loan.

Marianne Piterans, Director of Human Resources, Third Federal Savings and Loan;

Ralph M. Betters, Chief Information Officer, Third Federal Savings and Loan; and

David S. Huffman, Chief Financial Officer and Secretary.

Each of the named executive officers other than Mr. Betters is an officer of the Company, and each named executive officer is employed by Third Federal Savings and Loan. Of the total compensation paid to each named executive officer, a portion of such compensation is allocated as being paid by the Company while the remainder is allocated as being paid by Third Federal Savings and Loan. All discussion of compensation paid to the named executive officers refers to the combined amount of compensation paid by the Company and Third Federal Savings and Loan.

The compensation and benefits payable to the Company's directors and executive officers are established by or under the supervision of the Committee. The Committee currently consists of three members, Robert A. Fiala (Chairman), Anthony J. Asher and William C. Mulligan, each of whom is an independent director within the meaning of the listing standards of the NASDAQ Stock Market, a disinterested director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and a non-employee director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code).

The purposes of the Committee, among others, are to discharge our Board of Directors' responsibilities relating to compensation of the Company's directors and executive officers and to approve and evaluate the director and executive officer compensation plans, policies and programs of the Company. The Committee's charter provides that the Committee will generally meet quarterly or as needed. During fiscal year 2011, the Committee held five meetings. The agenda for each meeting is established by the Chairman of the Committee. The Committee generally invites the Company's Director of Human Resources, and frequently invites other members of senior management and outside advisors, as necessary, to report on matters of interest to the Committee and to participate as requested in its deliberations. In addition, the Committee meets in executive session without management at each meeting.

Compensation Philosophy and Objectives

In making decisions with respect to compensation for our named executive officers and other executives, the Committee is guided by the following philosophies and objectives:

We must attract, retain and motivate superior associates, including executives, for our flat business structure to be effective. Our flat business structure is intended to provide a framework for effective and prompt decision making, associate job satisfaction, the

sharing of resources and the ability to respond quickly to changes in the marketplace.

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Our compensation program should be competitive and comprehensive, consist of base salary, annual incentives, long-term incentives and benefits, and support our operating strategy of emphasizing teamwork and personal and professional enhancement through efficiency and cross-training our associates throughout the Company.

Our compensation program should motivate and reward our executives for sustained performance through the use of performance-based cash and equity compensation tied to short, intermediate and long-term goals designed to facilitate the achievement of the Company's business objectives and the enhancement of stockholder value.

Our compensation program should be designed to eliminate any incentive for our executive officers to cause the Company to take undue risk.

Elements of Our 2011 Compensation Program for Named Executive Officers

The following elements were included in our compensation program for named executive officers during fiscal year 2011:

Element of

Compensation	Description	Key Objectives Promoted
Annual Compensation		
Base Salary	Fixed annual compensation paid in accordance with our regular payroll procedures during the year.	Designed to be market competitive and enable the Company to attract and retain talented associates.
Semi-Annual Performance-based Cash Bonuses for Named Executive Officers	Variable cash bonuses. Bonuses for the named executive officers are based on the net income of the Company, adjusted for certain pre-identified factors deemed to be beyond the executives' control, and subject to reductions if certain pre-established performance measures are not achieved, over the two semi-annual periods of the fiscal year. Beginning in fiscal year 2012, bonuses will be paid on an annual rather than semi-annual basis.	Designed to motivate and reward achievement of short-term financial, operational and strategic business goals.
Long-Term Compensation		
Stock Options	Right to purchase common stock at a set price for a period of time after the right vests. No grants of stock options were made in fiscal year 2011.	Designed to be market competitive, motivate and reward achievement of stock price growth, and align associates' interests with those of the Company's stockholders. Also designed to retain executives.
Restricted Stock Units	Units representing a right to receive shares of common stock that vest as a result of continued employment for a stated period of time. No grants of restricted stock units were made in fiscal year 2011.	Designed to retain executives, motivate and reward achievement of stock price growth and align associates' interests with those of the Company's stockholders.

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Other Compensation****Description****Key Objectives Promoted****Elements**

Third Federal Savings Retirement Plan	Company-funded defined benefit retirement plan provided to associates; the amount of the benefit depends on an associate's years of service with the Company and average annual compensation. The plan was closed to new associates as of December 31, 2002, and as of December 31, 2011, the plan was amended to freeze future benefit accruals.	Designed to be market-competitive and enable the Company to retain talented associates who are eligible to participate.
Third Federal Savings 401(k) Plan	A 401(k) retirement savings plan that enables associates to defer up to 75% of their compensation with a Company matching contribution of up to 4% of an associate's contributions. The Plan also provides profit sharing contributions as determined by the Board; no profit sharing contributions were made in fiscal year 2011. The Company also makes contributions to the Plan on behalf of associates not participating in the Third Federal Savings Retirement Plan as determined by the Board.	Designed to be market-competitive and enable the Company to attract and retain talented associates.
Benefit Equalization Plan	A retirement savings plan that enables executives to defer a portion of their cash compensation and provides Company matches and profit sharing contributions that would have been payable under the 401(k) plan, but for certain limits established by law.	Designed to enable the Company to attract and retain talented executives.
Associate Stock Ownership Plan	A plan that enables our associates to acquire shares of common stock of the Company. Pursuant to the plan, every associate, including each executive, receives an equal number of shares of common stock on an annual basis.	Designed to help align associates' interests with those of the Company's stockholders.

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Element of

Compensation	Description	Key Objectives Promoted
Other Benefits	Health, life and disability insurance benefits.	Designed to be market-competitive and enable the Company to attract and retain talented associates.
Perquisites	Personal benefits provided to executives, such as financial, retirement and estate planning programs, a personal health management program, and a company car program.	Designed to be market competitive and to facilitate associates' attention to the Company's business.

Compensation Setting Process

We manage our business with a long-term view. Considerations that we evaluate carefully in our effort to design a compensation program that is in the best interests of the Company and its stockholders include, without limitation, the Company's financial performance, conditions in our industry, the state of the local and national economy, compensation features necessary to attract and retain superior executives, including competitive considerations in our industry, and our executives' performance in relation to specific long-, intermediate- and short-term goals and initiatives that we believe will benefit the Company and its stockholders.

On an annual basis, the Committee reviews and recommends compensation levels for executive officers based on the considerations described above.

For fiscal year 2011, the Company retained the Compensation Consultant to assist the Committee in its compensation review. As discussed further under the caption "Compensation Review," a separate committee of the Board of Directors engaged an additional compensation consultant during fiscal year 2011 to review certain aspects of the Company's compensation programs as required by a second memorandum of understanding (the "Second MOU") entered into by Third Federal Savings and Loan Association of Cleveland and the Office of Thrift Supervision.

For fiscal year 2011, the Committee used the same comparator group of 30 company peers and information that was utilized in fiscal year 2010 and partially utilized in fiscal year 2009. The companies included in the comparator group for fiscal year 2011 were as follows:

- | | |
|--|--|
| <ul style="list-style-type: none"> Astoria Financial Corporation Bank Mutual Corporation Beneficial Mutual Bancorp Inc. Berkshire Hills Bancorp Inc. Brookline Bancorp Inc. Capitol Federal Financial Inc. Dime Community Bancshares Inc. ESB Financial Corporation Federal Agriculture Mortgage Corp. First Defiance Financial Corp. First Financial Holdings Inc. First Niagara Financial Group, Inc. Flushing Financial Corp. Hudson City Bancorp Inc. Investors Bancorp, Inc. | <ul style="list-style-type: none"> Kearny Financial Corp. NewAlliance Bancshares, Inc. New York Community Bancorp, Inc. Northwest Bancorp, Inc. (MHC) OceanFirst Financial Corp. Ocwen Financial Corp. Oritani Financial Corp. People's United Financial Inc. Provident Financial Services, Inc. Provident New York Bancorp Radian Group Inc. Trustco Bank Corp. NY ViewPoint Financial Group Washington Federal, Inc. WSFS Financial Corp. |
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The Committee does not benchmark the named executive officers' compensation against the comparator group. For example, the Committee does not set compensation for our executives at a pre-determined level in relation to the group, such as the median level of compensation reported by the group, or by applying a formula to the compensation reported by the group. Instead, as the first step in the compensation setting process, the Committee reviews the compensation data for the comparator group to assess the competitiveness of the Company's compensation programs and its ability to achieve the philosophies and objectives of its compensation programs.

In making determinations on the mix and amount of executive compensation, the Committee reviews all components of executive compensation. The Committee believes that the total compensation opportunity available to executive officers should consist of base salary, performance-based cash bonuses, long-term incentives, retirement and other associate benefits and perquisites. The Committee has no mandatory policy for the allocation between base salary, short-term performance-based cash bonuses, and long-term incentives. The named executive officers continue to hold restricted stock units and stock options granted in prior years that create a strong link between executive compensation and long-term stockholder value creation and encourage long-term retention. To motivate and reward current-year performance, a significant percentage of total earnable cash compensation for the Company's executive officers, including the named executive officers, during fiscal year 2011 was allocated to semi-annual performance-based cash bonus awards. Our named executive officers' salaries were increased to their current level in fiscal year 2009 to offset the cessation in fiscal 2008 of Company contributions to the Executive Retirement Benefit Plan.

As part of the compensation-setting process, the Committee reviews with Mr. Stefanski the compensation data for his direct reports, and considers Mr. Stefanski's recommendations for them. Mr. Stefanski's review attributes significant weight to how the named executive officers performed as a team, rather than simple individual performance, because of the Company's culture of rewarding teamwork. As a result, internal pay equity plays a significant role in the Committee's analysis of compensation for the named executive officers (other than Mr. Stefanski, as explained below) and its final determination of compensation. In making its final determinations, the Committee was less focused on market pay for each individual executive officer (other than Mr. Stefanski), and more focused on how the aggregate pay of the named executive officers (other than Mr. Stefanski) compared to aggregate market values.

As Chairman and Chief Executive Officer, Mr. Stefanski's compensation is significantly higher than that of the other named executive officers because of his scope of responsibility, his tenure and experience with the Company and his impact on the performance of the Company. Mr. Stefanski also is an integral part of our marketing campaign as spokesman, and his family's name is an important part of our brand image.

Elements of Compensation

The elements of the Company's executive compensation program for fiscal year 2011 consisted of base salary; semi-annual performance-based cash bonuses; retirement benefits in the form of a defined benefit pension plan, a qualified defined contribution plan with a profit-sharing component and non-qualified deferred compensation plans; an associate stock ownership plan; and life insurance, health insurance and other perquisites and personal benefits. Stock options and restricted stock units were not granted as part of the executive compensation program in 2011, although such awards continue to be part of our compensation program and past awards were considered in determining compensation for fiscal year 2011.

Base Salary. The Company defines base salary as a fixed rate of pay that associates, including the named executive officers, receive in exchange for sustained performance of job duties and responsibilities over time. Base salary is intended to provide the Company the ability to attract and retain the highest quality professionals in their fields. The Company reviews the base salary of its executive officers annually. Because of the continued uncertain economic conditions facing the Company, and with advice from the Compensation

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Consultant as to the competitiveness of the base salaries of the named executive officers, the Company did not adjust the base salaries of the named executive officers for fiscal year 2011. As a result, the base salary of each named executive officer during fiscal year 2011 was unchanged from fiscal years 2010 and 2009, and was:

Named Executive Officer	Base Salary
Marc A. Stefanski	\$ 1,080,000
John P. Ringenbach	\$ 463,191
Marianne Piterans	\$ 392,568
Ralph M. Betteres	\$ 372,265
David S. Huffman	\$ 358,507

Semi-Annual Performance-based Cash Bonuses for Named Executive Officers. Under the TFS Financial Corporation Management Incentive Compensation Plan (the Management Incentive Plan), the named executive officers were eligible to receive semi-annual performance-based cash bonuses in fiscal year 2011. The potential bonuses under this plan are correlated directly to the net income of the Company during the applicable semi-annual period. This plan is intended to provide an incentive for superior performance and payout amounts that are competitive with the market. As discussed below, the plan will be changed to an annual plan beginning in fiscal year 2012.

For fiscal year 2011, the bonuses under the Management Incentive Plan were based primarily upon objective criteria. This plan was structured to satisfy the requirements for the performance-based compensation exception to the \$1,000,000 limitation on deductibility of compensation under Section 162(m) of the Code.

Under this plan for fiscal year 2011, bonuses were based on the net income of the Company, subject to certain adjustments. The amount of adjusted net income of the Company was used to establish an incentive pool that is distributable to the named executive officers. For purposes of establishing the incentive pool, net income is adjusted to eliminate the effect, positive or negative, of (i) gains or losses on sales of mortgage loans and variances in the amount of amortization of mortgage servicing rights, (ii) unexpected events outside the control of the named executive officers relating to taxes, regulatory assessments and pension or medical coverage charges and (iii) changes in accounting principles. Net income targets and the percentage of net income payable into the incentive pool are determined based upon the Company's budget for the upcoming year. For fiscal year 2011, if adjusted net income for the semi-annual period was less than \$2.5 million, then an incentive pool would not be created and no bonuses would be payable; if adjusted net income for the semi-annual period equaled or exceeded \$2.5 million, the incentive pool would be calculated as the sum of the following:

Eight percent (8%) of the first \$2.5 million of adjusted net income;

Eight percent (8%) of the second \$2.5 million of adjusted net income;

Nine percent (9%) of the third \$2.5 million of adjusted net income;

Nine percent (9%) of the fourth \$2.5 million of adjusted net income;

Nine percent (9%) of the next additional \$5 million of adjusted net income;

Nine percent (9%) of the next additional \$5 million of adjusted net income;

Seven percent (7%) of the next additional \$5 million of adjusted net income;

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Five percent (5%) of the next additional \$5 million of adjusted net income; and

Three percent (3%) of any adjusted net income in excess of \$30 million.

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The Committee determined that for each semi-annual period of 2011, the incentive pool would be distributed to the named executive officers in accordance with the following percentages:

Named Executive Officer	Percentage of Incentive Pool
Marc A. Stefanski	45.9%
John P. Ringenbach	15.8%
Marianne Piterans	13.4%
Ralph M. Betters	12.7%
David S. Huffman	12.2%

The percentage of the incentive pool allocated to each participant was based on the Committee's judgment in reviewing market data for the executive positions, the executives' salaries, and the desire to support the Company's culture of rewarding teamwork. As such, the Committee established a relationship of desired annual bonuses as a percentage of base salary that would be awarded each executive. Mr. Stefanski's direct reports were ascribed a share of the bonus pool proportionate to their respective base salaries. Thus, the pool allocation would provide each executive with a semi-annual performance-based bonus that represented the same percentage of his or her base salary earned during the period as the percentage for each other executive. Given Mr. Stefanski's role and reflecting relevant market data, Mr. Stefanski's portion of the pool was established to deliver 125% of the amount received by his direct reports when stated as a percentage of base salary. Thus, if each of Mr. Stefanski's direct reports were to receive a bonus of 10% of base salary, Mr. Stefanski would receive a bonus of 12.5% of base salary.

The maximum bonus that could be paid to a named executive officer for a semi-annual period of fiscal year 2011 was \$1,500,000.

In determining the actual bonus payment made to the named executive officers, the Committee has discretion to reduce the amount payable from the incentive pool to the officers. The measures established for fiscal year 2011 to be considered when determining whether to implement a reduction in the bonus amounts were the following: (i) expense control, (ii) credit risk, (iii) interest rate risk, (iv) associate evaluations, (v) turnover and (vi) customer satisfaction. The Committee considers performance with respect to all established measures as a group, rather than assigning any specific weighting to any individual measure. By retaining the ability to reduce the bonus pool based on credit risk measures and interest rate risk measures, the Committee believes that the bonus program is designed to eliminate incentive for the executive officers to cause the Company to take undue risk.

No bonuses were paid to the named executive officers for the first semi-annual period of fiscal year 2011 because adjusted net income of the Company for the period did not exceed the \$2.5 million threshold necessary to establish an incentive pool.

The Company's adjusted net income for the second semi-annual period of fiscal year 2011 was \$14.5 million, resulting in an incentive pool of \$1,252,000 for that period. The Committee believed actual performance with respect to the negative discretion measures as a group exceeded expectations during the second semi-annual period in fiscal year 2011. In assessing such performance, the Committee requested and received advisory input from Mr. Stefanski. The Committee did not reduce the amount of the incentive pool for the second semi-annual period in fiscal year 2011.

The total dollar amount of bonuses approved for the named executive officers for fiscal year 2011 was as follows:

Named Executive Officer	Bonus		Total
	10/1/2010- 3/31/2011	4/1/2011- 9/30/2011	
Marc A. Stefanski	\$ 0	\$ 574,668	\$ 574,668
John P. Ringenbach	\$ 0	\$ 197,816	\$ 197,816
Marianne Piterans	\$ 0	\$ 167,768	\$ 167,768
Ralph M. Betters	\$ 0	\$ 159,004	\$ 159,004
David S. Huffman	\$ 0	\$ 152,744	\$ 152,744

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Long-Term Incentives. We did not award equity grants in fiscal year 2011 to our named executive officers under the TFS Financial Corporation 2008 Equity Incentive Plan (the "2008 Equity Incentive Plan") and instead deferred any potential grants until the first quarter of fiscal year 2012, as discussed further under the caption "Changes in the Executive Compensation Program for Fiscal Year 2012." This decision was made in light of our compensation review described below and the outstanding holdings held by, aggregate compensation to be paid to and compensation opportunities available to our named executive officers for fiscal year 2011. The objectives of equity grants under the 2008 Equity Incentive Plan are to:

Link executive compensation and our long-term stock price performance;

Better align our executives' interests with our stockholders' interests; and

Provide opportunity for long-term compensation that is competitive with comparator companies and sufficient to attract and retain executive talent to effectively manage our business.

In developing our grant sizes for past long-term incentive awards to named executive officers, the following were considered:

The competitive pay analyses of the relevant peer group;

Each executive's role within our Company; and

The cost and share usage associated with the proposed grants and grants made in prior fiscal years.

The Committee's view is that the long-term incentive program should be predominantly performance-oriented. As such, the Committee has opted to provide approximately two-thirds of the grant value in the form of stock options and one-third of the grant value in the form of restricted stock units.

Stock Options. Stock options link compensation to stock price appreciation and support our growth objectives. In order to support retention and reward executives for stock performance over a longer horizon, options generally vest 33 1/3% annually over a three year period starting on the first anniversary of their grant, and remain exercisable until the tenth anniversary of their grant.

Restricted Stock Units. Restricted stock unit awards are designed to support executive retention and increase share ownership, which aligns the recipient's interests with our stockholders' interests. Restricted stock units vest in accordance with the terms of the award agreement accompanying their grant. Restricted stock units are generally granted with dividend equivalents that pay cash to the holder at the same time and to the same extent stockholders receive any dividends.

Stock Option Granting Practices. The exercise price for stock options previously granted to named executive officers was equal to the fair market value of a share of our common stock on the date of grant, which was the closing price of our common stock on NASDAQ on the date of the Compensation Committee meeting at which a particular award was approved. The exercise price for future grants of stock options is expected to be determined in the same manner.

Retirement Benefits. In addition to the 401(k) Plan and the ASOP, with respect to which the Company's contributions on behalf of the named executive officers are included in the Summary Compensation Table on page 27, each of the Company's executive officers, including the named executive officers, is eligible to participate in the retirement plans discussed below. The Committee believes these plans provide financial security that promotes retention.

Retirement Plan. Third Federal Savings and Loan sponsors a defined benefit retirement plan for associates, the Third Federal Savings Retirement Plan (the "Retirement Plan"), and each of the named executive officers participates in the Retirement Plan. Prior to January 1, 2003, an associate became eligible to participate in the

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Retirement Plan on the first day of the calendar quarter coinciding with or following the date he or she had both attained age 21 and been credited with a year of eligibility service. The Retirement Plan was closed to new associates on December 31, 2002; however, individuals who were already participants in the Retirement Plan on that date continued to accrue benefits under the terms of the Retirement Plan until December 31, 2011, when the plan was amended to freeze future benefit accruals. From January 1, 2012 forward, associates will instead be eligible to receive, at the Board's discretion, Company contributions under the 401(k) Plan. Upon normal retirement at age 65, a participant will generally be entitled to a monthly benefit equal to 2% of one-twelfth of the participant's average annual compensation multiplied by the participant's years of benefit service. If a participant continues working after reaching age 65, the participant will be eligible to receive his or her monthly normal retirement benefit for any month in which the participant works less than 40 hours. For these purposes, average annual compensation means the average compensation for each calendar year of employment other than years prior to participation in the Retirement Plan and years in which a participant has less than 1,000 hours of employment, that is, average annual compensation generally is based on the participant's average compensation over the participant's career with the Company. Compensation is defined as wages reported on Form W-2, including salary reduction contributions to the 401(k) Plan and flexible benefits plan and excluding certain reimbursements or special amounts such as expense allowances, fringe benefits, moving expenses and welfare benefits. On retirement after age 65, the benefit will be the greater of the normal retirement benefit determined at retirement or the normal retirement benefit determined at age 65, increased by 0.8% for each month of deferral after reaching normal retirement age. The normal form of benefit payment is a monthly payment over the longer of the participant's lifetime or ten years, and, in the event of the participant's death, payment to the participant's beneficiary for the remainder of the ten-year term. Additional information with respect to each named executive officer's participation in the Retirement Plan is included under - Pension Benefits on page 32.

Executive Retirement Benefit Plan. Prior to October 1, 2008, the Company credited amounts to accounts of participants in the Third Federal Savings and Loan Association MHC and Subsidiaries Executive Retirement Benefit Plan (the Executive Retirement Benefit Plan) at the end of each quarter. Effective October 1, 2008, the Company stopped making quarterly contributions to accounts under the Executive Retirement Benefit Plan. Account balances under the Executive Retirement Benefit Plan continue to be deferred. Our Board of Directors may offer investment options from which a participant may select for the purpose of determining the earnings to be credited to the participant's account. If our Board of Directors does not offer investment options or the participant does not elect to participate in the investment options, the participant's account will be credited with earnings at the rate of 10-year Treasury bonds (determined by using the rate on January 1 of each calendar year) at the end of each calendar quarter. The Executive Retirement Benefit Plan, which operates on a calendar year basis, credited a rate of 3.3% for the calendar year ended December 31, 2011.

Each of the named executive officers is vested in his or her account. The participant's account balance will be distributed to the participant (or the participant's beneficiary) in the form elected by the participant following separation from service because of death, disability, normal retirement or separation of service. If the participant does not elect a form of payment, payment will be made in a lump sum distribution. Third Federal Savings and Loan may, in its discretion, establish rabbi trusts to provide a source of payment of obligations under the plan, although it has not elected to do so.

Additional information with respect to each named executive officer's participation in the Executive Retirement Benefit Plan is included under - Non-Qualified Deferred Compensation on page 33.

Benefit Equalization Plan. Third Federal Savings and Loan maintains the Third Federal Savings and Loan Association MHC and Subsidiaries Benefit Equalization Plan (the Benefit Equalization Plan) for the purpose of providing benefits to certain executive officers, including each of the named executive officers, that would have been payable under the 401(k) Plan but for the limitations under Sections 401(a)(17), 402(g) and 415 of the Code. The named executive officers are the only participants in the Benefit Equalization Plan. Under this plan, a participant may elect to defer up to 15% of his or her compensation, reduced by the maximum amount of compensation that the participant may defer for the current plan year under the terms of the 401(k) Plan. A

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participant under the plan is eligible to receive a matching contribution with respect to his or her elective deferrals and a profit-sharing contribution in an amount equal to that which he or she would have received under the 401(k) Plan but for the compensation limits, reduced by the profit-sharing contribution allocated to the participant under the 401(k) Plan for such year. A participant is always 100% vested in his or her account under the plan. A participant may elect to receive his or her distribution of benefits in a lump sum or in 10 annual installments.

Our Board of Directors may offer investment options from which a participant may select for the purpose of determining the earnings to be credited to the participant's account. If our Board of Directors does not offer investment options or the participant does not elect to participate in the investment options, the participant's account will be credited with earnings at the rate of 10-year Treasury bonds (determined by using the rate of January 1 of each calendar year) at the end of each calendar quarter. The Benefit Equalization Plan, which operates on a calendar year basis, credited a rate of 3.3% for the calendar year ended December 31, 2011.

The participant's account balance will be distributed to the participant (or the participant's beneficiary), in the form elected by the participant, following the participant's death, disability, normal retirement or other separation of service. If the participant does not elect a form of payment, payment will be made in a lump sum. At the request of a participant who has an unforeseeable emergency, the Board of Directors may, in its discretion, distribute all or a portion of the participant's account. Third Federal Savings and Loan may establish rabbi trusts to provide a source of payment of obligations under the plan, although it has not elected to do so.

Additional information with respect to each named executive officer's participation in the Benefit Equalization Plan is included under "Non-Qualified Deferred Compensation" on page 33.

Other Benefits. Third Federal Savings and Loan sponsors medical and dental insurance plans for its associates, as well as short-term and long-term disability plans and life, accidental death and dismemberment insurance policies. The named executive officers participate in these plans. In addition, Third Federal Savings and Loan provides the following benefits:

Executive Life Insurance Bonus Program. Third Federal Savings and Loan has established an Executive Life Insurance Bonus Program for Messrs. Stefanski, Ringenbach and Betters, whereby the individual executives have acquired insurance policies on their lives and have transferred such policies to life insurance trusts. Third Federal Savings and Loan pays an amount to the executives annually in amounts sufficient to pay the premiums on the policies. In addition, at year end of past years, Third Federal Savings and Loan provided a tax gross-up to the executives in an amount sufficient to pay the taxes due on the premium payments. The Company terminated the gross-up payment portion of this benefit in 2011. The amount of the bonus is included under "All Other Compensation" in the Summary Compensation Table on page 27. The death benefits under the insurance policies are as follows: \$6.0 million for Mr. Stefanski and \$1.5 million for each of Messrs. Ringenbach and Betters.

Executive Disability Insurance Bonus Program. Third Federal Savings and Loan has established an Executive Disability Insurance Bonus Program for Messrs. Stefanski, Ringenbach and Betters and Ms. Piterans, whereby the individual executives have acquired individual disability policies and Third Federal Savings and Loan pays an amount to the executives annually in amounts sufficient to pay the premiums on the policies. In addition, at year-end of past years, Third Federal Savings and Loan provided a tax gross-up to the executives in an amount sufficient to pay any taxes due on the bonuses. The Company terminated the gross-up payment portion of this benefit in 2011. The amount of the bonus is included under "All Other Compensation" in the Summary Compensation Table on page 27.

Financial, Retirement and Estate Planning Program. Third Federal Savings and Loan sponsors the Financial, Retirement and Estate Planning Program for certain of its executive officers, including the named executive officers, and one additional associate director. Individuals designated by the Board of Directors are eligible to participate in the program during the year in which they are designated and during the two succeeding

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years. For the year ended September 30, 2011, each of the named executive officers and director Bernard Kobak, who is also a part-time associate, were designated by the Board of Directors to participate in the program, and Messrs. Stefanski, Ringenbach and Kobak participated. Under the program, a participant (or in certain circumstances, his or her surviving spouse) may consult with a financial planning adviser, investment adviser or legal adviser, each of whom may perform such services as are reasonably required, and Third Federal Savings and Loan will pay the fees for those services, up to \$40,000 in any one calendar year. The amount of fees paid by Third Federal Savings and Loan is included under *All Other Compensation* in the *Summary Compensation Table* on page 27.

Personal Health Management Program. Third Federal Savings and Loan also has implemented a personal health management program for the named executive officers that offers participants the opportunity to have annual medical examinations and health risk appraisals on a regular basis, and Mr. Betteres participated in fiscal year 2011. The amount of fees paid by Third Federal Savings and Loan is included under *All Other Compensation* in the *Summary Compensation Table* on page 27.

Company Car Program. Third Federal Savings and Loan sponsors a company car program under which members of executive management designated by the Chief Executive Officer are provided a new company car and other staff members designated by the Chief Executive Officer receive an assigned company car or have the opportunity to use a company vehicle or receive a gasoline credit card. Messrs. Stefanski and Kobak, along with one associate who is not a named executive officer, have each been provided with a company car under the program. The company car program also covers the costs of maintenance and operation of company cars and insurance coverage. The value of the benefits provided under this program is included under *All Other Compensation* in the *Summary Compensation Table* on page 27.

Supplemental Executive Split Dollar Life Insurance. Third Federal Savings and Loan maintains supplemental life insurance coverage for the named executive officers through an endorsement split dollar life insurance program. Third Federal Savings and Loan owns each of the policies and endorses a portion of the death benefit to the beneficiaries designated by the executive. These arrangements do not provide a death benefit postretirement. Supplemental life insurance death benefit amounts are determined according to the ranges of salary and bonus compensation of the executives, as follows: \$4.7 million for Mr. Stefanski; \$4.0 million for Mr. Ringenbach; and \$2.0 million for each of Messrs. Betteres and Huffman and Ms. Piterans. No other executives currently participate in the endorsement split dollar program. The amount of insurance premiums paid with respect to these policies is included under *All Other Compensation* in the *Summary Compensation Table* on page 27.

Changes in the Executive Compensation Program for Fiscal Year 2012

In the first quarter of fiscal year 2012, the Compensation Committee, with advice from the Compensation Consultant, considered target cash compensation levels for the named executive officers for fiscal year 2012, and increased Mr. Huffman's base salary effective in January of 2012 to \$400,000 to reflect his expanded responsibilities and his performance.

As discussed further under the caption *Compensation Review*, the Committee, in accordance with the recommendation of the Oversight Committee, approved an annual incentive program under the Management Incentive Plan with targets and incentive payments based upon annual, instead of semi-annual, metrics. Under the plan, the incentive pool for fiscal year 2012 will be calculated as the sum of the following:

Four percent (4%) of the first \$5 million of adjusted net income;

Five percent (5%) of the second \$5 million of adjusted net income;

Six percent (6%) of the next additional \$10 million of adjusted net income;

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Seven percent (7%) of the next additional \$20 million of adjusted net income;

Eight percent (8%) of the next additional \$10 million of adjusted net income;

Five percent (5%) of the next additional \$10 million of adjusted net income; and

Three percent (3%) of any adjusted net income in excess of \$60 million.

As discussed further under the caption "Semi-Annual Performance-based Cash Bonuses for Named Executive Officers," the Committee may reduce the bonus pool otherwise payable based on credit risk measures, interest rate risk measures and certain other risk measures and factors determined by the Committee. By retaining the ability to reduce the bonus pool based on credit risk measures and interest rate risk measures, the Committee believes that the bonus program will not create an incentive for the executive officers to cause the Company to take undue risk.

The named executive officers will receive the following percentages of the bonus pool, if any, created based on adjusted net income of the Company during fiscal year 2012:

Named Executive Officer	Percentage of Incentive Pool
Marc A. Stefanski	45.34%
John P. Ringenbach	15.55%
Marianne Piterans	13.18%
Ralph M. Betters	12.50%
David S. Huffman	13.43%

The maximum bonus payable to a named executive officer for fiscal year 2012 will be \$3,000,000.

The Committee also made equity grants to the named executive officers in the first quarter of fiscal year 2012. These restricted stock unit awards, unlike restricted stock units previously granted to our named executive officers which effectively must be held until retirement, will be distributed free of restriction as they vest in three equal installments at the end of years one, two and three. The equity grants made to our named executive officers in the first quarter of fiscal year 2012 were as follows:

Named Executive Officer	Number of Stock Options	Stock Option Exercise Price	Number of Restricted Stock Units
Marc A. Stefanski	369,000	\$ 8.61	55,200
John P. Ringenbach	36,900	\$ 8.61	5,500
Marianne Piterans	36,900	\$ 8.61	5,500
Ralph Betters	36,900	\$ 8.61	5,500
David S. Huffman	36,900	\$ 8.61	5,500

Employment Agreements and Severance Policy

The Company is not party to an employment agreement or severance agreement with any of the named executive officers. The Company has a policy to review severance for its associates, including the named executive officers, on a case-by-case basis. However, the 2008 Equity Incentive Plan provides for acceleration of vesting of awards upon the occurrence of certain terminations or a change in control. See "Potential Payments upon Termination or Change in Control" on page 34.

Deductibility of Compensation

The Committee considers Section 162(m) of the Code, which provides certain criteria for the tax deductibility of compensation in excess of \$1.0 million paid to the Company's named executive officers, in

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determining compensation of the named executive officers. It is the Committee's intent to maximize deductibility of executive compensation while retaining the discretion needed to compensate executive officers in a manner commensurate with performance and retention. The Company believes that all compensation paid to named executive officers other than Mr. Stefanski during fiscal year 2011 was fully deductible. A portion of Mr. Stefanski's salary and insurance-related bonuses as well as amounts paid by the Company for life insurance, financial planning and other perquisites were not deductible. The Company expects that a portion of Mr. Stefanski's compensation for fiscal year 2012 will not be deductible.

Stock Ownership Guidelines

While many of the Company's executive officers, including the named executive officers, invested a significant amount of money in the Company's shares during its initial public offering and have acquired shares on the open market and through the 401(k) Plan since the public offering, the Company does not have specific guidelines regarding stock ownership for its executive officers. The Committee believes that shares acquired by the executive officers and the stock option and restricted stock unit awards made in prior years and currently appropriately align the interests of executive officers with the interests of the Company's stockholders.

Compensation Review

In accordance with the Second MOU, the Board of Directors appointed three independent directors, Messrs. Ozan, Heisler and Cohen (the Oversight Committee), to oversee the Company's compliance with certain compensation-related provisions of the Second MOU. As required by the Second MOU, the Oversight Committee engaged the services of an executive compensation consultant, AON Hewitt, to perform a review and prepare a report on the compensation and benefits provided to the Company's named executive officers (the Compensation Report) for the Oversight Committee and the Board of Directors.

The Compensation Report analyzed the compensation of our named executive officers for fiscal year 2010 against compensation in a peer group of companies with total assets ranging from \$4 billion to \$25 billion and in a subgroup of direct peers selected based on their loan portfolios and business models. The peer group included 14 companies, including nine companies in the peer group utilized by the Compensation Committee.

The Compensation Report noted that the targeted compensation opportunity of our named executive officers, other than Mr. Stefanski, in the aggregate, was slightly above the competitive range for targeted compensation and at competitive levels for actual pay delivered. The Compensation Report further noted that compensation of our Chief Operating Officer and Chief Financial Officer was competitively positioned and that both Mr. Stefanski's targeted pay and actual pay delivered were above market.

We feel that Mr. Stefanski's compensation is appropriate in light of his scope of responsibility, his tenure and experience with the Company and his impact on the performance of the Company. Mr. Stefanski also is an integral part of our marketing campaign as spokesman, and his family's name is an important part of our brand image. We also feel that the compensation of each of our named executive officers is appropriate, as the Company has fewer employees than its competitors with similar amounts of total assets, which typically results in greater responsibilities for our associates and named executive officers.

After reviewing the findings in the Compensation Report, the Oversight Committee made the following recommendations to the Board of Directors:

Consider replacing the Management Incentive Plan with an annual short-term cash bonus, or consider adoption of a true-up to prevent overpayment under the Management Incentive Plan.