DELPHI FINANCIAL GROUP INC/DE
Form 10-K/A
April 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2011

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-11462

DELPHI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	(302) 478-5142	13-3427277
(State or other jurisdiction of incorporation or organization)	(Registrant s telephone number, including area code)	(I.R.S. Employer Identification Number)

1105 North Market Street, Suite 1230, P. O. Box 8985, Wilmington, Delaware 19899

(Address of principal executive offices) (Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	New York Stock Exchange
7.376% Fixed-to-Floating Rate Junior Subordinated Debentures due May 1, 2067	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (as defined in Rule 12b-2 of the Act).

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2011 was $1,427,353,193.

As of February 2, 2012, the Registrant had 49,088,263 shares of Class A Common Stock and 6,111,557 shares of Class B Common Stock outstanding.

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Explanatory Note

Delphi is filing this Amendment No. 1 on Form 10-K/A (the Form 10-K/A) to its Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (the SEC) on February 29, 2012 (the 2011 Form 10-K), for the sole purpose of adding certain information required by the items of Form 10-K referenced below. This Form 10-K/A continues to speak as of the date of the 2011 Form 10-K and does not reflect events occurring after the date of the 2011 Form 10-K, nor does it modify or update the disclosures and information contained in the 2011 Form 10-K in any way other than as described in this Explanatory Note. Accordingly, this Form 10-K/A must be read in conjunction with the 2011 Form 10-K and Delphi s other filings with the SEC.

Item and Description:

Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 14. Principal Accountant Fees and Services

Delphi hereby amends Items 10, 11, 12, 13 and 14 of Part III of the 2011 Form 10-K by deleting the text of such Items 10, 11, 12, 13 and 14 in their entirety and replacing them with the information provided below under the respective headings.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-K/A also contains new certifications by the principal executive officer and principal financial officer as required by Section 302 of the Sarbanes-Oxley Act of 2002. Accordingly, Item 15(b) of Part IV is amended to include the currently dated certifications as exhibits. Because no financial statements are contained in this Form 10-K/A, certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are not included.

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Item 10. Directors, Executive Officers and Corporate Governance

BOARD OF DIRECTORS

The following sets forth information as to each of the members of the Company s Board of Directors (the Board), including the director s age, positions with the Company, length of service as a director of the Company, any other directorships currently held, principal occupations and employment and public company directorships during the past five years and other experience, as well as brief summaries of their qualifications to serve as a director of the Company. In addition to their qualifications indicated in these summaries, these qualifications also include the significant tenures of their service to the Company and, where indicated, its insurance company subsidiaries.

Robert Rosenkranz, 69, has served as the Chief Executive Officer of the Company since May 1987 and has served as Chairman of the Board of Directors of the Company since April 1989. He served as President of the Company from May 1987 to April 2006. He also serves as Chairman of the Board or as a Director of the Company s principal subsidiaries and as Chairman and Chief Executive Officer of Delphi Capital Management, Inc. (DCM). Mr. Rosenkranz has served since October 1978 as either sole or managing general partner of Rosenkranz & Company, L.P. or as beneficial owner of its general partner. Mr. Rosenkranz founded Acorn Partners, L.P. in 1982 as a multi-manager, multi-strategy fund of hedge funds and, in 2004, founded Pergamon Advisors LLC (Pergamon Advisors), an investment adviser that, along with its affiliated entities, pursues a market neutral equity investment strategy. Mr. Rosenkranz s qualifications to serve as a director of the Company include his years of business experience in the insurance and investment management sectors, including his service as the Company s Chief Executive Officer since its formation in 1987.

Donald A. Sherman, 61, has served as the President and Chief Operating Officer of the Company and DCM since April 2006 and has served as a Director of the Company since August 2002. Mr. Sherman also serves as a Director of the Company s principal subsidiaries. Mr. Sherman served as Chairman and Chief Executive Officer of Waterfield Mortgage Company, Inc. (Waterfield) from 1999 to 2006 and as President of Waterfield from 1989 to 1999. From 1985 to 1988, he served as President and as a member of the Board of Directors of Hyponex Corporation (Hyponex) and from 1983 to 1985 served as Chief Financial Officer of Hyponex. From 1975 to 1983, he held various positions with the public accounting firm of Coopers and Lybrand and was elected to partner in 1981. Mr. Sherman has previously served as a director of White River Capital Inc. Mr. Sherman s qualifications to serve as a director of the Company include his years of business experience in the insurance and banking sectors, including, prior to his service as the Company s President and Chief Operating Officer, service as the chief executive officer of a substantial banking institution.

Kevin R. Brine, 61, has served as a Director of the Company since July 2004. He is Managing Director of Artemis IV LLC and a board member of Coyuchi, LLC. Previously, he was a partner and board member of Sanford C. Bernstein & Co., Inc. Over his twenty-two year career at Sanford C. Bernstein & Co., Inc., Mr. Brine had senior management responsibilities for the firm s U.S. Private Client Business and Global Institutional Asset Management Division. Mr. Brine has served as a trustee for the Whitney Museum of American Art and New York University as an Overseer for the Weill Cornell Medical College. Currently, he is an Overseer of the Faculty of Arts and Science at New York University and Chair of the Dean s Counsel for the Division of Libraries at New York University. Mr. Brine s qualifications to serve as a director of the Company include his years of business experience in the investment management sector and his experience in serving as a director and in similar capacities in both the corporate and non-profit sectors.

Edward A. Fox, 75, has served as a Director of the Company since March 1990. He served as Chairman of the Board of SLM Corporation from August 1997 until May 2005, and is currently a Director of Capmark Financial Group, Inc. From May 1990 until September 1994, Mr. Fox was the Dean of the Amos Tuck School of Business Administration at Dartmouth College, and from April 1973 until May 1990, he was President and Chief Executive Officer of the Student Loan Marketing Association (SallieMae). Mr. Fox s qualifications to serve as a director of the Company include his years of business experience in the financial sector, including service as chief executive officer of a major publicly-traded financial institution, and his experience in serving as a director, board committee member and in similar capacities in both the corporate and non-profit sectors.

Steven A. Hirsh, 72, has served as a Director of the Company since August 2005. He has also served as a Director of Reliance Standard Life Insurance Company (RSLIC) and First Reliance Standard Life Insurance Company (FRSLIC) since January 1988. He currently serves as Chairman of the Board and President of Astro Communications, Inc., a provider of industrial lighting products. He previously served as a portfolio manager with William Harris & Company and predecessor firms for thirty-seven years. Mr. Hirsh s qualifications to serve as a director of the Company include his years of business experience in the investment management sector, as well as his experience in the management of various types of business organizations.

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James M. Litvack, 70, has served as a Director of the Company since August 2005. He has also served as a Director of FRSLIC since April 1990. He is an economic consultant and previously taught economics for 31 years at Princeton University, where he also served as Assistant Dean of the Faculty and as Executive Director of the Ivy League. He has served on numerous commissions advising on financial issues for the State of New Jersey. Mr. Litvack s qualifications to serve as a director of the Company include his years of academic experience and expertise in the field of economics, including associated university administrative responsibilities, and his experience serving on financial advisory commissions in the governmental context.

James N. Meehan, 66, has served as a Director of the Company since May 2003. He also has served as a Director of RSLIC since July 1988 and FRSLIC since April 1993. Mr. Meehan retired from Banc of America Securities/Bank of America as a Managing Director in May 2002 after 15 years of service with the organization and its predecessors. During his tenure, he was responsible for the bank s commercial relationships with the insurance industry. Mr. Meehan also serves as a director of American Fuji Fire and Marine Insurance Company and as Chairman of its Audit Committee and has previously served as a director of Bristol West Holding, Inc. Mr. Meehan s qualifications to serve as a director of the Company include his years of business experience in the banking and investment banking sectors with a focus on insurance company financial matters, and his experience in serving as a director for a number of publicly-traded and other companies in the insurance sector.

Robert F. Wright, 86, has served as a Director of the Company since August 2005. He has also served as a Director of RSLIC and RSLIC-Texas since April 1990 and as a Director of FRSLIC since October 1989. He serves as the President and Chief Executive Officer of Robert F. Wright Associates, Inc., a business consultancy which he founded in 1988. Prior to founding this consultancy, he was a senior partner of the public accounting firm of Arthur Andersen. Mr. Wright also serves as a director of Universal American Corp. and has previously served as a director of The Navigators Group, Inc. and USI Holdings Corporation. Mr. Wright s qualifications to serve as a director of the Company include his years of business experience as a business consultant, his years of experience in the field of accounting and his experience in serving as a director and board committee member for a number of publicly-traded and other companies, including a number of companies in the insurance sector.

Philip R. O Connor, 63, has served as a Director of the Company since May 2003. He also has served as a Director of RSLIC since March 1993. Dr. O Connor is currently the President of PROactive Strategies, a provider of policy analysis and advice on insurance and energy regulation. Until November 2008, he also served as a Vice President of Constellation NewEnergy, Inc. (CNE), a provider of competitive retail electricity. From March 2007 to March 2008, he served at the U.S. Embassy in Baghdad, Iraq as an advisor to the Iraqi Ministry of Electricity. Dr. O Connor served as the Illinois Director of Insurance from 1979 to 1982. From 1983 through 1985, Dr. O Connor was Chairman of the Illinois Commerce Commission, the utility regulatory body of Illinois, and he served on the Illinois State Board of Elections from 1998 until April 2004. After 1985, Dr. O Connor formed Palmer Bellevue Corporation, an energy and insurance consulting firm that became a part of Coopers and Lybrand in 1993. He also serves as a member of the Board of the Big Shoulders Foundation for the schools of the Archdiocese of Chicago and is a member of the Board of the Haymarket Center in Chicago. Dr. O Connor s qualifications to serve as a director of the Company include his years of experience in insurance and utility regulatory matters, including service as a state commissioner of insurance and experience as a consultant, and his experience in serving as a director of several companies in the insurance sector.

Directors Attendance

The Board of Directors held fifteen meetings during 2011. In 2011, each incumbent director attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which such incumbent served. Directors are encouraged to attend each annual meeting of stockholders of the Company where practicable. All of the directors then serving attended the 2011 annual meeting. The non-management members of the Board of Directors of the Company hold regularly scheduled executive sessions on a quarterly basis, and the presiding director for these sessions is selected by rotating among the chairs of the committees of the Board.

Communication with Board of Directors

Any stockholder or interested party may communicate with the Board of Directors, any Board committee or any individual director(s) by directing such communication in writing to the Company s Secretary, at 1105 North Market Street, Suite 1230, Wilmington, Delaware 19801. The communication should indicate whether the communicating party is a stockholder and whether it is a Board, Board committee or individual director communication, as the case may be. The Secretary will forward such communication to the members of the Board or of the relevant committee or individual director(s), as indicated in such communication.

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CORPORATE GOVERNANCE

Board Leadership Structure

As noted above, Robert Rosenkranz has served as the Company s Chairman of the Board since 1989 and as its Chief Executive Officer since 1987. The Board believes that this combination of the Chairman and Chief Executive Officer roles has benefited the Board and the Company by maintaining unified and clear leadership over time and enhancing focus on important matters affecting the Company s business and operating strategy, thus contributing to the more efficient and effective functioning of the Board. As a complement to this structure, as further discussed below, a majority of the Board is composed of independent directors, who comprise all of the members of each of the Board s committees and who meet in executive session as part of each regular Board meeting. Such meetings facilitate an open dialogue between management and the independent directors, enabling them to exercise independent oversight and effectively express an independent perspective.

Director Independence

The Board has adopted categorical standards for evaluating the independence of its members. Under these standards, a director is presumed to be independent if (i) neither the director nor any immediate family member of the director (a family member) is currently employed or has been employed (as an executive officer, in the case of a family member) by the Company during the past three years; (ii) neither the director nor any family member has received in any twelve-month period within the past three years more than $100,000 in direct compensation from the Company, other than director and committee fees, or in the case of a family member, compensation received for service as a non-executive employee of the Company; (iii) neither the director nor any family member (a) is a current partner (or, in the case of a director, an employee) of a firm that is the Company s external or internal auditor, (b) within the last three years was a partner or employee of such a firm and personally worked on the Company s audit within that time, or, (c) in the case of a family member, is a current employee of such a firm and participates in the Company s audit, assurance or tax compliance (but not tax planning) practice; (iv) neither the director nor any family member is currently employed or has been employed during the past three years as an executive officer of another company where any of the Company s present executives at the same time serves or served on that other company s compensation committee; and (v) the director is not an executive officer, and no family member is an employee, of a company that during the past three full calendar years made payments to, or received payments from, the Company for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of such other company s consolidated revenues. In addition, under such standards, a director is not deemed to have a material relationship with the Company that impairs the director s independence as a result of (i) the director or any family member being an executive officer, director or trustee of a foundation, university or other charitable or not-for-profit organization to which the Company or its charitable foundation makes contributions that did not exceed the greater of $1 million or 2% of such organization s consolidated gross revenues in any single fiscal year during the preceding three years; (ii) the director s beneficial ownership of less than 5% of the outstanding equity interests of an entity that has a business relationship with the Company; (iii) the director being an officer or director of an entity that is indebted to the Company, or to which the Company is indebted, where the total amount of the indebtedness was less than 3% of the total consolidated assets of such entity as of the end of the previous fiscal year; or (iv) the director (or an entity of which such director is an officer, employee or director) obtaining products or services from the Company on terms generally available to customers of the Company for such products or services. In making its independence determinations with respect to Messrs. Brine, Fox, Hirsh, Litvack, Meehan, O Connor and Wright, the Board determined that none of such directors had any relationship with the Company that would be contrary to the provisions of these standards or the listing standards of the NYSE. The Company s director independence standards are available on its website *(www.delphifin.com/corp_governance)* and in print to any stockholder upon request.

Stock Ownership Guidelines

In order to enhance the alignment of the economic interests of the Company s independent directors with the long-term interests of the Company s stockholders, the Board has adopted guidelines for ownership by such directors of shares of the Company s common stock. Under these guidelines, such directors are expected to own shares of Company common stock having a value of at least three times the amount of their annual retainer for service on the Board within a three-year period.

Committees of the Board of Directors

The Board of Directors maintains three standing committees: the Compensation Committee, the Nominating and Corporate Governance Committee (the Governance Committee), and the Audit Committee. Each of such committees is comprised solely of individuals who are independent directors as described above. Descriptions of these committees and their respective duties follow.

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Compensation Committee

The responsibilities of the Compensation Committee include, among others, oversight and approval of the compensation of the Company s executive officers, including the Chief Executive Officer, administration of the stock option and other stock-related plans of the Company, and making recommendations regarding the compensation of the Company s outside directors. The Compensation Committee s responsibilities and authority are described in greater detail in its written charter, which is available on the Company s website (*www.delphifin.com/corp_governance)* and in print to any stockholder upon request. The committee s membership consists of Messrs. Wright (Chairman), Meehan and O Connor. The Compensation Committee held eight meetings during 2011. The Compensation Committee s report is set forth on page 8 below.

Compensation Committee Interlocks and Insider Participation

Messrs. Meehan, O Connor and Wright, the directors who served on the Compensation Committee during 2011, are not insiders within the meaning of the Securities Act of 1933 (the Securities Act) and there were no interlocks within the meaning of the Securities Act.

Governance Committee

The Governance Committee consists of Messrs. O Connor (Chairman), Brine and Fox. The Governance Committee, among other things, identifies and recommends to the Board nominees for election as directors, recommends committee appointments to the Board, oversees the Board s performance evaluation processes and reviews proposed and existing related party transactions pursuant to the Company s review policy for such transactions. See Certain Relationships and Related Transactions beginning at page 32 below. The Governance Committee s responsibilities and authority are described in greater detail in its written charter. This charter, along with the Company s Corporate Governance Guidelines and other Company corporate governance-related documents, are available on the Company s website (*www.delphifin.com/corp_governance)* and in print to any stockholder upon request. The Governance Committee met five times in 2011.

For purposes of identifying Board nominees, the Governance Committee relies primarily on personal contacts of members of the Board and does not maintain a formal process in this regard. The Company has not engaged the services of any third party search firm in connection with the identification or evaluation of potential Board nominees. While the Governance Committee has not adopted specific, minimum qualifications for director nominees or a specific policy regarding diversity in the Board s composition, the Board has adopted criteria that are considered by the Governance Committee and the Board in its review of such nominees, individually and as a group, which form part of the Company s Corporate Governance Guidelines. These criteria provide that the members of the Board should bring a range of skills, perspectives and backgrounds and should be composed of individuals who have demonstrated substantial achievements in business, government, education or other relevant fields, and who possess the requisite intelligence, experience and education to make meaningful contributions to the Board, as well as high ethical standards and a dedication to exercising independent business judgment. The evaluative factors contained in the criteria address, in addition to various factors relevant to these general attributes, whether the nominee has the ability, in light of his or her personal circumstances, to devote sufficient time to carry out his or her duties and responsibilities effectively.

Audit Committee

The Audit Committee consists of Messrs. Meehan (Chairman), Brine, Hirsh and Litvack. A copy of the Audit Committee s charter is available on the Company s website (*www.delphifin.com/corp_governance)* and in print to any stockholder upon request. Pursuant to such charter, the Audit Committee, among other things, assists the Board of Directors in its oversight of the integrity of the Company s financial statements, the Company s compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company s independent auditor, and the performance of the Company s internal audit function. Management has the primary responsibility for the Company s financial statements and its reporting process, including its systems of internal controls, and for the assessment of the effectiveness of the Company s internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. The independent auditor is responsible for performing an audit of the Company s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board, expressing opinions as to the conformity of such financial statements with generally accepted accounting principles and as to the effectiveness of the Company s internal control over financial reporting. Each of the current members of the Audit Committee meets the criteria for independence set forth in Rule 10A-3 under the Securities Exchange Act of 1934 (the Exchange Act), in addition to the director independence standards described above. See Director Independence above. The Board of Directors has determined that Mr. Meehan is an audit committee financial expert as that term is defined in the rules of the SEC. Further information concerning the Audit Committee and its activities is set forth in the Audit Committee s report set forth below. The Audit Committee held ten meetings during 2011.

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Board Oversight of Risk

Management of the Company is responsible for implementing measures to assess, monitor and manage the risks to which the Company and its subsidiaries are subject and, in doing so, is subject to the oversight of the Board, as a whole and acting through its committees. Pursuant to its charter and in accordance with the listing standards of the NYSE, the Audit Committee is responsible for discussing the Company s policies with respect to risk assessment and risk management. To fulfill this responsibility, the Audit Committee, with the participation of all of the other members of the Board, periodically receives from and discusses with management reports describing and assessing the significant risks to which the Company is subject and the steps taken by management to monitor and manage these risks. In addition, on an ongoing basis, significant strategic, financial, operational and other risks, along with management s responses to these risks, are discussed in the context of management s reports on operations and investments presented at the regular meetings of the Board, and in the context of management s reports presented to the Board in connection with the Company s annual financial planning process, and are also addressed in various other presentations by management to the Board and, as to risks specific to their areas of responsibility, its committees.

Code of Ethics

The Company has a written Code of Conduct that is applicable to all of the directors and employees of the Company and its subsidiaries, as well as a supplemental written Code of Ethics for Senior Financial Officers that applies specifically to the Company s Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer and Senior Vice President and Treasurer. Such Codes are available on the Company s website *(www.delphifin.com/corp_governance*) and in print to any stockholder upon request. The Company intends to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of the Code of Ethics by posting such information on its website at the aforementioned address.

Section 16(a) Beneficial Ownership Reporting Compliance

To the Company s knowledge, based solely on its review of Forms 3, 4 and 5 and amendments thereto furnished to the Company pursuant to Section 16 of the Securities Exchange Act of 1934 and written representations that no other reports were required for such persons, all persons subject to these reporting requirements filed the required reports on a timely basis, except that Rosenkranz & Company, L.P., a limited partnership whose general partner is beneficially owned by Robert Rosenkranz, Chairman and Chief Executive Officer of the Company, and Mr. Rosenkranz inadvertently failed to timely report a distribution of 18,362 shares of the Company s Class A common stock by Rosenkranz & Company, L.P. to a partner that occurred on October 25, 2011. Both reports were filed on November 4, 2011.

NYSE Written Affirmation

On June 6, 2011, Robert Rosenkranz, the Company s Chairman and Chief Executive Officer, submitted to the NYSE the Written Affirmation required by the rules of the NYSE certifying that he was not aware of any violations by the Company of NYSE corporate governance listing standards.

Item 11. Executive Compensation

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the following Compensation Discussion and Analysis with management, and, based on such review and discussion, recommended to the Board of Directors that such Compensation Discussion and Analysis be included in the 2011 Form 10-K.

Robert F. Wright, Chairman

James N. Meehan

Philip R. O Connor

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis describes the material elements of compensation for the Company s executive officers identified in the Summary Compensation Table below (who are referred to below as the named executive officers), the process by which such elements were determined and established by the Compensation Committee for the respective individuals and the principles and considerations underlying such determinations.

The compensation decisions for the named executive officers relating to 2011 took into account, among other things, the Company s consolidated financial results and investment portfolio performance for the year, the significant value that was created for the Company s stockholders as a result of the transactions contemplated by the Agreement and Plan of Merger, dated as of December 21, 2011, among the Company, Tokio Marine Holdings, Inc. and TM Investment (Delaware) Inc. (as amended from time to time) (the Tokio Marine Merger Agreement), the Company s achievements from the capital management standpoint during the year and, for the named executive officers employed by the Company s insurance subsidiaries, the favorable operating performance of these subsidiaries for the year, particularly in light of the challenging economic and competitive conditions that continued to prevail during the year. Detailed discussions relating to the Company s consolidated financial results and insurance operating performance for the year are contained in Part II, Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations.

At the 2011 Annual Meeting of Stockholders, the Company s stockholders voted to approve, on an advisory and non-binding basis, the compensation of the named executive officers as disclosed in the proxy statement for such meeting in accordance with the compensation disclosure rules of the SEC. The Compensation Committee considered the results of this advisory vote in determining to maintain in place the Company s compensation programs for these officers.

Compensation Objectives and Approach

The objectives of our compensation programs are to attract, motivate, retain and reward executives and employees who will make substantial contributions toward the Company s meeting the financial, operational and strategic objectives that will build substantial value for the Company s stockholders. In an effort to achieve these objectives, the key elements of such programs have consisted of base salary, annual cash bonuses and share-based compensation. The Company has over time emphasized share-based compensation awards as a large proportion of the named executive officers total compensation in an effort to align their interests with those of the Company s stockholders, since such awards will appreciate or depreciate in value to the extent that the market price of the Company s common stock increases or decreases over time. However, as is typical in the context of corporate merger transactions, the terms of the Tokio Marine Merger Agreement preclude the Company from granting new share-based awards. Accordingly, as discussed below, certain of the named executive officers received cash awards in respect of their performance during 2011 in lieu of share-based awards of the type that have been granted in the past. If for any reason the merger contemplated by the Tokio Marine Merger Agreement is not completed, the Company anticipates that it would continue its historical practices with regard to the granting of share-based awards.

The Compensation Committee believes that although a substantial portion of the compensation provided to the Company s executive officers is performance-based, our executive compensation programs do not create incentives for excessive risk-taking. The structures of these programs, as described in more detail below, have encouraged the executive officers of the Company and of its subsidiaries, including the named executive officers, to remain focused on both short- and long-term operational and financial goals in several important respects. For example, the terms of the deferred or restricted share units granted to Messrs. Rosenkranz and Sherman have generally provided that they will not receive the underlying shares of stock until after their termination of employment, thus encouraging a focus upon sustained long-term performance in our stock price. As another example, the multi-year performance goals under the performance-contingent incentive option programs for the executive officers of our insurance subsidiaries were intended to encourage them to focus on achieving strong financial performance for these subsidiaries over long-term periods.

Compensation Consultant and Peer Group

In order to assist the Compensation Committee in performing its functions, the committee utilizes the services of Steven Hall & Partners (SHP), an expert independent compensation consulting firm. SHP provides research, analysis and recommendations to the Compensation Committee regarding the named executive officers and outside directors compensation, including as to both equity and non-equity compensation, based on directions provided to it by the Compensation Committee, and participates in committee meetings. SHP s services and fees are subject to the review and approval of the Compensation Committee on an ongoing basis. SHP does not perform any services for the Company or its subsidiaries other than in its role as consultant to the Compensation Committee.

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SHP has assisted the Compensation Committee in establishing and maintaining a peer comparator group for compensation analysis purposes. The group utilized in 2011 consisted of the following companies in the life and property and casualty insurance sectors, reflecting the Company s presence in both sectors: FBL Financial Group, Inc., Harleysville Group Inc., HCC Insurance Holdings, Inc., Markel Corp., Presidential Life Corporation, RLI Corp., StanCorp Financial Group, Inc., Torchmark Corporation, Unitrin, Inc., Universal American Corp. and W.R. Berkley Corp. The composition of this group is reevaluated by SHP on a regular basis based upon its review of the universe of companies in the life and property and casualty insurance sectors, such members market capitalizations, revenues and other financial and business characteristics it believes appropriate for continued inclusion in the group. SHP also compiles published compensation survey data for the Compensation Committee s information and use in this regard. The Compensation Committee does not target compensation levels for the named executive officers to specified percentiles within the companies in the comparator group or survey data. Rather, the compensation information furnished by SHP is one of a number of factors, as described below, that the Compensation Committee considers in establishing the level and components of compensation to the named executive officers. In addition, such information is used in the evaluation of whether the Company s compensation practices are competitive in the marketplace.

Compensation Determination Process and Considerations

Mr. Rosenkranz makes proposals to the Compensation Committee regarding the elements of compensation for each of the named executive officers, including his own compensation, and the Compensation Committee has full authority and discretion to accept, reject or modify these proposals. The Compensation Committee s compensation determinations regarding the named executive officers are reviewed by the full Board. Generally, these determinations are made annually and occur at the Compensation Committee s first regular meeting of each calendar year occurring in February, at which cash bonuses and share-based awards (or cash awards in lieu thereof), if any, relating to the named executive officers performance during the preceding calendar year are granted, and any base salary adjustments for the current year are implemented. In preparation for these meetings, the Compensation Committee holds one or more prior interim meetings in which Mr. Rosenkranz presents his preliminary compensation proposals relating to the named executive officers, based on the anticipated full-year financial results for the Company and its subsidiaries. SHP participates in all of these meetings and provides analysis, input and advice as appropriate in connection with the Compensation Committee s deliberations relating to these matters.

The Compensation Committee reviews and approves each element of compensation for the named executive officers. In establishing the levels and components of compensation for the named executive officers, the Committee, as a threshold matter, evaluates the Company s (in the case of the named executive officers who are officers of the Company) and the relevant operating subsidiary s (in the case of the named executive officers employed by such subsidiary) overall performance for the year, and conducts evaluations with regard to each individual in determining the appropriateness of the elements and levels of each individual s compensation, considering, among other things, Mr. Rosenkranz s input regarding these evaluations.

In setting Mr. Rosenkranz s compensation, the Compensation Committee also considers the amounts paid by the Company to his related entities under the investment consulting and management arrangements described below in order to assess the appropriateness of the overall remuneration in which Mr. Rosenkranz has a financial interest, and has concluded that such remuneration is fairly reflective of the substantial value furnished to the Company by him and these entities. These arrangements are subject to review and approval at inception, and to regular periodic review, under the Company s Review Policy for Related Party Transactions. In addition, with regard to Mr. Sherman, the Compensation Committee takes into account the payments received by him in respect of his services to various entities in which Mr. Rosenkranz has personal financial interests. See Certain Relationships and Related Transactions beginning at page 32 below.

Key elements considered in the Compensation Committee s performance evaluations include corporate or subsidiary performance compared to the financial, operational and strategic goals for the applicable period, the officer s contributions to such performance and the officer s other accomplishments for the benefit of the Company during such period. In these evaluations, the Compensation Committee does not apply rigid formulas or necessarily react to short-term changes in financial performance. Such evaluations also take into account the nature, scope and level of the named executive officer s responsibilities and the officer s level of experience, past levels of compensation and changes in such levels, tenure with the Company, other opportunities potentially available to such officer and the comparator group compensation data discussed above. In addition, the members of the Compensation Committee regularly interact with each of the named executive officers in connection with the meetings of the Company s Board of Directors, which provides an additional basis for evaluating such officer and his performance. Based on all of these general evaluative factors and the additional factors described below that vary among the named executive officers, the Compensation Committee makes its assessments and determines the components and levels of their compensation.

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Cash Compensation

Base Salary

We pay base salaries at levels we believe will attract and retain key employees and ensure that our compensation program is competitive. Base salaries for the named executive officers are established by the Compensation Committee, and reviewed by such committee for potential adjustment on an annual basis, based on the considerations described in the preceding section. The base salary amounts paid to the named executive officers during 2011, which reflected increases for Messrs. Rosenkranz, Sherman, Coulter and Burghart, are shown in the Summary Compensation Table at page 16 below.

Annual Bonus

Cash bonuses for the named executive officers, which are shown in the Summary Compensation Table in the Bonus and Non-Equity Incentive Compensation columns, are established and determined on an annual basis in ways that vary among the named executive officers. In the cases of Messrs. Rosenkranz, Sherman and Coulter, various objective performance goals were adopted for 2011 under the Company s Annual Incentive Compensation Plan, which were as follows: (1) Company operating earnings per share of at least $3.30; (2) Company operating return on equity percentage of at least 11%; (3) the performance of the Company s stock exceeding that of the S&P 500 Insurance Index; (4) the performance on a total return basis of the Company s investment portfolio exceeding that of the Barclays Capital U.S. Aggregate Bond Index (the Index) by at least 100 basis points (1%); (5) the Company s either (a) deploying in an investment subportfolio assets which either achieve a total return exceeding that of the Index by at least 200 basis points (2%) or give rise to an excess return amount, as compared to a hypothetical investment in the Index in a corresponding amount and for a corresponding period, of at least $1,000,000 or (b) introducing a new category of insurance liabilities with the related spread income, based upon the supporting investment subportfolio, exceeding the greater of 100 basis points (1%) or $1,000,000; and (6) the Company s completing one of a specified group of capital markets and acquisition transactions. Operating earnings per share and operating return on equity are both non-GAAP financial measures under which GAAP net income is adjusted by excluding the after-tax effects of realized investment gains and losses, losses on early retirement of senior notes and junior subordinated deferrable interest debentures and results from discontinued operations, as applicable, in order to focus on the performance of the Company s continuing insurance operations. For each of the respective goals attained, Messrs. Rosenkranz, Sherman and Coulter had the opportunity to earn a cash award equal to 50%, 40% and 30%, respectively, of their 2011 base salaries, except for the operating earnings per share goal, where the percentages were 100%, 80% and 60%, respectively. In each case, such cash awards were subject to the ability of the Compensation Committee to exercise negative discretion to reduce their amounts. These percentages reflected a target level for Mr. Sherman s bonus equal to 80% of that of Mr. Rosenkranz.

In addition, various objective performance goals were adopted for 2011 under the Company s Annual Incentive Compensation Plan for Mr. Wilhelm as follows: (1) the attainment by SIG Holdings, Inc., SNCC s immediate parent company (SIG), of pre-tax operating income in an amount of at least $177.7 million; (2) SIG s assets available for investment increasing during the year by an amount exceeding $234.2 million; (3) specified recently introduced insurance products generating, in the aggregate, at least $4.4 million of incremental gross premium revenues for the year; and (4) the acquisition of a company or division or business unit thereof or other similar transaction where the consideration paid is at least $10 million or the acquisition of a book of insurance business having an aggregate reserve amount or annualized premium revenue equal to at least $10 million. For these purposes, pre-tax operating income and assets available for investment, which are both non-GAAP financial measures, are calculated in the same manner as for the SNCC performance-contingent incentive option program discussed below (see Share-Based Compensation Options and Restricted Shares below). These measures contain various pro forma adjustments, including, among others, the calculation of the investment income element of pre-tax operating income based on an assumed (rather than actual) investment portfolio yield, in order to focus on the insurance operating performance of SIG and its subsidiaries. For each goal attained, Mr. Wilhelm had the opportunity to earn a cash award equal to 50% of his 2011 base salary, except for the pre-tax operating income element, where the percentage was 100%, subject in each of these cases to the ability of the Compensation Committee to exercise negative discretion to reduce the award amount.

These bonus structures were designed to give Messrs. Rosenkranz, Sherman, Coulter and Wilhelm opportunities to earn awards based on the accomplishment of objectives believed to be of substantial benefit to the Company, while also permitting the Compensation Committee to exercise discretion in adjusting the amounts of these awards to those it determines will appropriately compensate these officers in a manner that maximizes the tax deductibility by the Company of such awards under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). See Tax Considerations at page 15 below. For 2011, each of the goals for Messrs. Rosenkranz, Sherman and Coulter, other than the goals relating to the performance of the Company s investment portfolio relative to that of the Index and to capital markets transactions, was achieved. The Compensation Committee then applied negative discretion, applying the general evaluative factors discussed in the preceding section, to establish their 2011 cash bonus amounts at levels considered to be appropriate, taking such factors into account. Such amount, in Mr. Rosenkranz s case, was equal to approximately 169% of his 2011 base salary and in Mr. Sherman s case, was equal to approximately 135% of his 2011 base salary.

In the Compensation Committee s exercise of negative discretion in establishing these amounts, the most significant element consisted of its subjective and qualitative evaluations of the Company s 2011 overall financial, investment and operational performance and these executives contributions to this performance, and the amounts were set at levels that the committee believed would appropriately reward them for this performance and their contributions. The Committee s evaluations took into account the extensive and ongoing involvement of Messrs. Rosenkranz and Sherman, individually and collectively, in formulating the financial, investment and operational strategies of the Company and of its insurance subsidiaries, entailing, among other things, decision-making relating to the management and deployment of capital, the allocation of the Company s investment portfolio among various asset classes and the identification of specific investment opportunities, and insurance business focus, marketing, pricing and underwriting strategies, as well as ongoing roles in overseeing and guiding the implementation of these strategies. As such, the outcomes of these evaluations are typically aligned to a significant extent with the Committee s evaluation of the elements of the Company s performance for the year under review, whether favorable or unfavorable. For 2011, while significant stockholder value was created through the Tokio Marine Merger Agreement and significant progress was made by the Company during the year in the areas of capital management and the enhancement of its investment function, as well as in the growth of its insurance premiums, because the Company s operating results and investment performance for the year were less favorable than in 2010, the 2011 cash bonuses for Messrs. Rosenkranz and Sherman were reduced by approximately 14% from their 2010 levels. In Mr. Coulter s case, the Committee established the level of his bonus for 2011 based upon a subjective assessment of the extent and nature of his contributions toward the Company s performance and accomplishments for the year and of his performance of the responsibilities of his position.

In Mr. Wilhelm s case, each of the 2011 goals was achieved. The Compensation Committee then applied negative discretion, taking into account its evaluation of SNCC s corporate performance on a stand-alone basis and the performance of SNCC s executive management team as a whole, applying the evaluative factors discussed in the preceding section, to establish Mr. Wilhelm s bonus for 2011 at a level equal to eighty percent of his 2011 base salary. In this evaluation, the Compensation Committee in its performance evaluation took into account SNCC s significant growth in premiums and assets available for investment during the year, as well as its underwriting results, which were less favorable than in 2010.

The annual cash bonus for Mr. Burghart, who is employed in the operations of RSLIC, is established under the RSLIC annual management incentive compensation plan, which is the incentive compensation vehicle for all members of RSLIC management selected annually by RSLIC s Compensation Committee to participate in such plan. Actions relating to Mr. Burghart s compensation under this plan are subject to the separate review and approval of the Compensation Committee. The criterion determining the level of the bonus attainable under this plan for 2011 consisted of the attainment by RSLIC and its affiliated life insurance companies of an operating income target for the year of $168.4 million. Contingent upon the attainment of this goal, Mr. Burghart had the opportunity to earn a bonus of to up to 60% of his 2011 base salary, subject to a discretionary 10% upward or downward adjustment that applies uniformly to the annual bonuses of all plan participants and is based on a discretionary assessment of aspects of RSLIC s corporate performance for the year beyond the level of operating income achieved, such as steps taken during the year to build for future corporate achievement and its teamwork with other members of the Company s corporate group. Under this plan, if the operating income target for a plan year is not attained, any bonuses for that year are payable solely on a discretionary basis. As with the operating earnings-related performance goals for Messrs. Rosenkranz, Sherman and Coulter discussed above, this operating income goal is a non-GAAP financial measure under which the after-tax effects of realized investment gains and losses, as applicable, extraordinary items and results from discontinued operations are excluded from GAAP net income in order to focus on the performance of RSLIC s continuing insurance operations. In 2011, while RSLIC s insurance operations performed favorably for the year, both from the underwriting and premium revenue standpoints, RSLIC did not attain the 2011 operating income goal set forth in such plan. Based on this performance and taking into account the factors discussed above, the Compensation Committee approved, on a discretionary basis, an award to Mr. Burghart of a bonus at the full amount that would have been earned had the operating income goal been achieved.

Mr. Kiratsous received a sign-on cash bonus of $500,000 in connection with his being hired as the Company s Executive Vice President and Chief Financial Officer in June 2011, as well as a guarantee that his cash bonus for 2011 would be in a minimum amount of $875,000. Based on the Committee s subjective evaluation of the extent and nature of his contributions toward the Company s performance and accomplishments for the year, including among others his significant involvement in the negotiation and implementation of the Tokio Marine Merger Agreement, the Committee awarded Mr. Kiratsous a cash bonus of $1,050,000.

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Share-Based Compensation

General Objectives and Overview

As discussed above, the Company s belief has been that a large component of its officers compensation should consist of share-based incentive compensation, which appreciates or depreciates in value in relation to the market price of our common stock. Accordingly, the Compensation Committee has in recent years made annual and other grants of share-based awards to the named executive officers and other key employees in such amounts as the Committee believed would accomplish the objectives of our compensation programs. The Company believes that these awards have provided substantial benefit to the Company in creating appropriate performance incentives and in facilitating the long-term retention of employees who add significant value.

Share-based awards to the named executive officers have taken the forms of options to purchase the Company s Class A or Class B Common Stock, as applicable (referred to below as options), deferred or restricted share units (Share Units), which entitle the recipient to receive a number of shares of Company Class A or Class B Common Stock, as applicable, equal to the number of such units upon the completion of a specified deferral period, along with dividend equivalents during the period that such units are outstanding and restricted shares of Class A Common Stock. Such compensation has been awarded under the Company s 2003 Employee Long-Term Incentive and Share Award Plan (the Share Plan) and, in the case of Mr. Rosenkranz, under the Company s Second Amended and Restated Long-Term Performance-Based Incentive Plan. Summary descriptions of these plans begin at page 18 below.

Options and Restricted Shares

Options give the holder the right, generally for a period of ten years, to purchase a specified number of shares of Company stock at a specified exercise price, which is the NYSE closing price of the Class A Common Stock on the date of grant. The options will provide a financial benefit to the holder only to the extent that the price of our stock increases above the exercise price and the holder remains employed during the vesting period, which is generally five years, thus providing a substantial incentive for the employee to continue employment with the Company. Employees generally forfeit any options not vested at the time that their employment terminates. In addition, the options serve to align employees interests with those of our stockholders by providing an incentive to make contributions that will assist in increasing the market price of our stock. The Company has not backdated options or granted options retroactively.

Restricted shares of Class A Common Stock are issued and outstanding shares under which the holder has all of the rights of a stockholder, including the rights to vote the shares and receive dividends, except that they may not be sold, transferred, pledged or otherwise disposed of by the holder until they vest. Restricted shares whose vesting conditions are not satisfied are forfeited to the Company. Like options, restricted share awards have served to align employees interests with those of our stockholders by providing an incentive to make contributions that will assist in increasing the market price of our stock. The Company did not grant restricted shares to any named executive officers in 2011.

For the named executive officers employed by our insurance subsidiaries, we have emphasized the use of share-based awards having a performance-contingent incentive structure. The vesting of these awards is contingent upon the attainment by RSLIC, in the case of Mr. Burghart, and SIG, in the case of Mr. Wilhelm, of financial performance goals for specified multi-year performance periods relating to the respective subsidiaries cumulative pre-tax operating income (as defined in the respective option agreements) for these periods. Pre-tax operating income, in both cases, is a non-GAAP financial measure that applies various adjustments in order to focus on the performance of the subsidiaries continuing insurance operations. In both cases, the awards vest if the specified goal is met; otherwise, a reduced portion of such awards vest depending upon where the performance achieved falls within a specified range. If specified minimum performance targets for the applicable performance periods are not satisfied, the awards are forfeited in their entirety. Thus, these awards provide substantial incentives for performance that will serve the interests of the Company and its stockholders.

A performance-contingent incentive option program of this type was adopted by the Compensation Committee in 2008 for the members of SNCC executive management, including Mr. Wilhelm, for the 2008-2012 performance period, which contains three and five year performance periods, both of which began with the 2008 fiscal year. Based on the full achievement of the performance goal for the three year performance period under this program, sixty percent, or 135,000, of the 225,000 options granted to Mr. Wilhelm under this program became exercisable in 2011. The remainder of such options will become exercisable only to the extent that the financial performance goal for the five year period under this program is satisfied; otherwise, such options will be forfeited.

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A similarly structured performance-contingent incentive option program was adopted by the Compensation Committee in 2009 for Mr. Burghart and the other members of RSLIC executive management for the 2009-2014 performance period, containing four and six year performance periods, both of which began with the 2009 fiscal year. In December 2010, the Compensation Committee approved modifications to the program which eliminated its six year performance period and reduced the level of the financial performance goal for the four year performance period. In conjunction with these modifications, Mr. Burghart surrendered 80,000 of the 200,000 options granted to him under the program and exchanged 60,000 of the remaining options, which were in-the-money, for 25,854 restricted shares of Class A Common Stock on a value-for-value basis taking into account the fair value of the restricted shares and the fair value of the exchanged options according to the Black-Scholes option pricing model. The remaining options and restricted shares will vest to the extent that the financial performance goal for the program s four year performance period is satisfied; otherwise, they will be forfeited. The Compensation Committee determined that these modifications were appropriate in order to permit such program to continue to serve as an effective incentive for its participants, including Mr. Burghart, in light of the effects of the economic and interest rate environment on RSLIC s ability to achieve the program s financial goals and to provide for a balance between options and restricted shares.

Treatment of Equity Awards under the Tokio Marine Merger Agreement

In connection with the merger contemplated by the Tokio Marine Merger Agreement, the Company s options, restricted shares and Share Units, including the options, restricted shares and Share Units held by the named executive officers, are subject to accelerated vesting. The Company s options and restricted shares, other than options and restricted shares granted pursuant to the SNCC and RSLIC performance-contingent incentive programs discussed above, vested in full upon the approval of the contemplated merger at the special meeting of our stockholders held on March 13, 2012 and will entitle the holders thereof to the consideration set forth in the Tokio Marine Merger Agreement upon the consummation of such merger. The Share Units will vest in full and will entitle the holders thereof to the consideration set forth in the Tokio Marine Merger Agreement upon the consummation of the merger contemplated by such agreement. In the case of options and restricted shares granted pursuant to the SNCC and RSLIC performance-contingent incentive programs, although the vesting conditions discussed above relating to the attainment of financial performance goals will be deemed to have been fully achieved upon the consummation of the contemplated merger, the payments under the Tokio Marine Merger Agreement with respect to these equity awards will be made on December 31, 2012, in the case of the options, and March 5, 2013, in the case of the restricted shares, in each case, subject to the holder s continued provision of services to Tokio Marine and its affiliates (including the Company and its subsidiaries) through the applicable payment date, and subject to earlier payment in the event of certain qualifying terminations of the holder s employment. Additional information regarding the payments expected to be made to the named executive officers in respect of outstanding equity awards pursuant to the Tokio Marine Merger Agreement is contained in the Company s definitive proxy statement on Schedule 14A filed with the SEC on February 21, 2012.

Share Units

Share Units give the holder the right to receive one share of Company Class A or Class B Common Stock for each unit held and to receive dividend equivalents while the units are outstanding. As in the case of the options that we grant, Share Units are subject to substantial vesting requirements that provide the Company with significant benefits from the standpoint of employee retention. All of these requirements have been time-based to date.

2011 Grants and Granting Practices

In the cases of Messrs. Rosenkranz, Sherman and Coulter, share-based awards have been regularly made by the Compensation Committee over time on a discretionary basis, primarily in connection with the annual performance evaluations discussed above. In connection with Mr. Kiratsous being hired as the Company s Executive Vice President and Chief Financial Officer in 2011, he received special sign-on awards of Class A Common Stock Share Units and Class A Common Stock options, as well as a guarantee that his minimum share-based award for 2011 would consist of Class A Common Stock Share Units in a number equal to $780,000 divided by the fair market value per share of the Class A Common Stock on the award date and Class A Common Stock options in a number equal to $2,340,000 divided by such fair market value on the award date. However, as noted above, the Tokio Marine Merger Agreement precludes the granting by the Company of new share-based awards. Accordingly, at the February 2012 meeting of the Compensation Committee, cash awards in lieu of share-based awards were granted as follows: Mr. Rosenkranz - $2,500,000, Mr. Sherman - $2,000,000, Mr. Kiratsous - $1,800,000 and Mr. Coulter - $400,000, respectively, in each case in respect of their performance during 2011. The levels of these awards to Messrs. Rosenkranz and Sherman were set at levels approximately 17% lower than those of the share-based awards granted in respect of their performance for 2010, based on the evaluative factors described above with respect to their 2011 cash bonuses. In Mr. Sherman s case, such award was set at a level equal to 80% of the corresponding award to Mr. Rosenkranz, consistent with the relationship of his cash bonus for 2011 to that of Mr. Rosenkranz. The levels of such awards to Messrs. Kiratsous and Coulter were established based on the Compensation Committee s evaluations of their performance for 2011 discussed above. See Cash Compensation Annual Bonus above.

The Company s annual grants of share-based awards to employees have generally been made at the same time each year. These grants have occurred at the regular Compensation Committee meeting held in February at which, as discussed above, the named executive officers performance evaluations are conducted. These meetings are scheduled significantly in advance, without regard to any information or expectations regarding future Company financial performance or announcements. Further, awards made at these meetings are made effective on the third day of market trading of the Company s stock following the public announcement of the Company s financial results for the preceding year, which has normally occurred shortly following the Compensation Committee s February meeting. This practice ensures that the terms of these awards, such as option exercise prices, are reflective of the impact of such announcements on the Company s stock price. All grants of share-based awards have been made directly by formal action of the Compensation Committee, which has not delegated any granting authority to management.

Employment and Severance Agreements

The named executive officers, except as described below in the Potential Payments on Termination or Change in Control section beginning at page 24, do not have term employment, severance or change-in-control agreements. Accordingly, with the exception of Mr. Wilhelm, the named executive officers serve on an at-will basis, which would enable the Company to terminate their employment and to determine the terms of any severance arrangement at such time. In addition, the terms of the Company s share-based awards, as discussed above, subject such awards to forfeiture if specified vesting requirements are not satisfied prior to a named executive officer s leaving the Company.

Tax Considerations

Section 162(m) of the Code limits the deductibility of certain compensation for the Chief Executive Officer, as well as the other named executive officers other than the person serving as the Company s principal financial officer, in excess of $1 million per year unless certain specified conditions are met. The Compensation Committee intends to establish and maintain executive compensation levels and programs that will serve the purposes described in this Compensation Discussion and Analysis. The Compensation Committee has structured the Company s current executive compensation arrangements in order to avoid limitations on deductibility, and will continue to do so in the future where this result can be achieved consistent with achieving these purposes.

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SUMMARY COMPENSATION TABLE

The following table sets forth, with the exceptions described in the following sentence, the compensation paid by the Company and its subsidiaries to the Chief Executive Officer, the persons having served as the Company s principal financial officer during the year ended December 31, 2011 and the other three most highly compensated executive officers of the Company and its subsidiaries for such year and the compensation paid by the Company to such individuals for the years ended December 31, 2010 and 2009.

Name and Principal Position	Year	Salary ($) (3)	Bonus ($) (4)	Stock Awards($) (5)	Option Awards ($) (6)	Non-Equity Incentive Plan Compensation ($) (4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(7)	All Other Compensation ($) (8) (9)	Total $
Robert Rosenkranz,	2011	$ 890,000	$ 2,500,000	$ 1,500,000	$ 1,777,748	$ 1,500,000	$ 3,100,776	$ 97,768	$ 11,366,292
Chief Executive Officer	2010	865,000		1,250,000	1,393,001	1,750,000	2,711,769	110,901	8,080,671
of the Company	2009	832,750				1,500,000		60,375	2,393,125
Stephan Kiratsous Executive Vice President and Chief Financial Officer of the Company (1)	2011	462,115	3,350,000	1,500,000	561,174			10,236	5,883,525