

FLAGSTAR BANCORP INC

Form 10-Q/A

June 16, 2005

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FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Mark One

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2005

OR

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

Commission File No.: **001-16577**

FLAGSTAR BANCORP, INC.

(Exact name of registrant as specified in its charter)

Michigan

38-3150651

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

5151 Corporate Drive, Troy, Michigan

48098

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(248) 312-2000**

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 such filing requirements for the past ninety days. Yes ☒ No ☐.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

As of April 27, 2005, 62,029,144 shares of the registrant's Common Stock, \$0.01 par value, were issued and outstanding.

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EXPLANATORY NOTE

This amendment is being filed solely to revise the disclosure in Item 4(a). This amendment does not affect any of the financial information or any of the other information previously reported in the originally filed Form 10-Q.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited condensed consolidated financial statements of the Registrant are as follows:

Consolidated Statements of Financial Condition - March 31, 2005 (unaudited) and December 31, 2004.

Unaudited Consolidated Statements of Earnings - For the three months ended March 31, 2005 and 2004.

Consolidated Statements of Stockholders' Equity and Comprehensive Income - For the three months ended March 31, 2005 (unaudited) and for the year ended December 31, 2004.

Unaudited Consolidated Statements of Cash Flows - For the three months ended March 31, 2005 and 2004.

Unaudited Notes to Consolidated Financial Statements.

This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company including statements preceded by, followed by or that include the words or phrases such as believes, expects, anticipates, plans, trend, objective, continue, pattern or similar expressions or future or conditional verbs such as will, would, should, could, might, can, similar expressions, which are intended to identify forward looking statement within the meaning of the Private Securities Litigation Reform Act of 1995.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

(1) competitive pressures among depository institutions increase significantly; (2) changes in the interest rate environment reduce interest margins; (3) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (4) general economic conditions, either national or in the states in which the Company does business, are less favorable than expected; (5) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (6) legislative or regulatory changes or actions adversely affect the businesses in which the Company is engaged; (7) changes and trends in the securities markets; (8) a delayed or incomplete resolution of regulatory issues; (9) the impact of reputational risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity; and (10) the outcome of regulatory and legal investigations and proceedings.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements .

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Flagstar Bancorp, Inc.
Consolidated Statements of Financial Condition
(in thousands)

	At March 31, 2005	At December 31, 2004
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 153,137	\$ 156,457
Mortgage-backed securities held to maturity	18,953	20,710
Investment securities	19,570	18,391
Mortgage loans available for sale	1,980,854	1,506,311
Investment loan portfolio	11,195,408	10,558,463
Less: allowance for losses	(37,018)	(37,627)
Investment loan portfolio, net	11,158,390	10,520,836
Total earning assets	13,177,767	12,066,248
Accrued interest receivable	40,296	36,961
Reposessed assets, net	38,757	37,823
Repurchased assets, net	16,913	17,099
Federal Home Loan Bank stock	250,149	234,845
Premises and equipment, net	181,420	180,095
Mortgage servicing rights, net	215,043	187,975
Other assets	200,360	207,985
Total assets	\$ 14,273,842	\$ 13,125,488
Liabilities and Stockholders Equity		
Liabilities		
Deposits	\$ 7,744,681	\$ 7,379,655
Federal Home Loan Bank advances	4,738,000	4,090,000
Long term debt	181,748	104,427
Total interest-bearing liabilities	12,664,429	11,574,082
Accrued interest payable	25,732	28,145
Undisbursed payments on loans serviced for others	487,984	496,210
Escrow accounts	226,005	176,424
Liability for checks issued	18,505	18,941
Federal income taxes payable	38,388	26,115
Secondary market reserve	15,162	19,002
Other liabilities	54,439	51,732
Total liabilities	13,530,644	12,390,651
Commitments and Contingencies		

Stockholders' Equity

Common stock - \$.01 par value, 80,000,000 shares authorized; 62,005,935 and 61,357,614 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively

	620	614
Additional paid in capital	42,375	40,754
Accumulated other comprehensive income	7,662	5,343
Retained earnings	692,541	688,126
Total stockholders' equity	743,198	734,837
Total liabilities and stockholders' equity	\$ 14,273,842	\$ 13,125,488

The accompanying notes are an integral part of these statements.

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Flagstar Bancorp, Inc.
Unaudited Consolidated Statements of Earnings
(in thousands, except per share data)

	For the three months ended March 31,	
	2005	2004
	(unaudited)	
Interest Income		
Loans and mortgage backed securities	\$ 162,689	\$ 129,924
Other	436	917
Total	163,125	130,841
Interest Expense		
Deposits	52,962	34,049
FHLB advances	41,052	36,742
Other	3,902	9,073
Total	97,916	79,864
Net interest income	65,209	50,977
Provision for losses	6,246	9,302
Net interest income after provision for losses	58,963	41,675
Non-Interest Income		
Loan fees and charges, net	2,622	4,071
Deposit fees and charges	3,577	2,868
Loan administration, net	5,945	8,232
Net gain on loan sales	9,756	32,132
Net gain on sales of mortgage servicing rights	4,248	21,785
Other fees and charges	9,414	8,993
Total	35,562	78,081
Non-Interest Expense		
Compensation and benefits	30,718	27,109
Occupancy and equipment	16,397	17,097
Communication	1,553	1,859
Other taxes	2,068	2,951
General and administrative	12,987	13,363
Total	63,723	62,379
Earnings before federal income taxes	30,802	57,377
Provision for federal income taxes	11,024	20,420
Net Earnings	\$ 19,778	\$ 36,957

Net earnings per share	basic	\$	0.32	\$	0.60
Net earnings per share	diluted	\$	0.31	\$	0.57

The accompanying notes are an integral part of these statements.

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Flagstar Bancorp, Inc.
Consolidated Statements of Stockholders' Equity and Comprehensive Income
(in thousands, except per share data)

	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at January 1, 2004	\$ 607	35,394	2,173	605,494	643,668
Net earnings				143,754	143,754
Net realized gain on swap extinguishment			2,650		2,650
Net unrealized gain on swaps used in cash flow hedges			520		520
Total comprehensive income					146,924
Stock options exercised and grants issued, net	7	3,311			3,318
Tax benefit from stock-based compensation		2,049			2,049
Dividends paid (\$1.00 per share)				(61,122)	(61,122)
Balance at December 31, 2004 (Unaudited)	614	40,754	5,343	688,126	734,837
Net earnings				19,778	19,778
Recognition of gain on swap extinguishment			(334)		(334)
Net unrealized gain on swaps used in cash flow hedges			2,653		2,653
Total comprehensive income					22,097
Stock options exercised and grants issued, net	6	1,621			1,627
Dividends paid (\$0.25 per share)				(15,363)	(15,363)
Balance at March 31, 2005	\$ 620	\$ 42,375	\$ 7,662	\$ 692,541	\$ 743,198

The accompanying notes are an integral part of these statements.

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Flagstar Bancorp, Inc.
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	For the three months ended March 31,	
	2005	2004
Operating Activities		
Net earnings	\$ 19,778	\$ 36,957
Adjustments to reconcile net earnings to net cash used in operating activities		
Provision for losses	6,246	9,302
Depreciation and amortization	23,179	28,874
FHLB stock dividends	(2,503)	(2,493)
Net gain on the sale of assets	(468)	(510)
Net gain on loan sales	(9,756)	(32,132)
Net gain on sales of mortgage servicing rights	(4,248)	(21,785)
Proceeds from sales of loans available for sale	5,536,829	6,407,827
Originations and repurchase of loans, net of principal repayments	(6,367,098)	(7,040,349)
Increase in accrued interest receivable	(3,335)	(1,928)
Net increase in repurchased assets	186	(6,739)
Decrease (increase) in other assets	11,706	(42,738)
Decrease in accrued interest payable	(2,413)	(4,348)
(Decrease) increase in the liability for checks issued	(436)	31,456
Increase in federal income taxes payable	10,510	16,823
(Decrease) increase in other liabilities	(1,133)	18,701
Net cash used in operating activities	(782,956)	(603,082)
Investing Activities		
Net change in investment securities	(1,179)	(1,052)
Net change in mortgage backed securities	1,757	2,827
Origination of loans held for investment, net of principal repayments	(289,173)	(863,441)
Purchases of Federal Home Loan Bank stock	(12,801)	(26,579)
Additional investments in unconsolidated subsidiaries	2,321	4,640
Proceeds from the disposition of repossessed assets	10,389	19,394
Acquisitions of premises and equipment, net of proceeds from sales	(8,332)	(9,097)
Increase in mortgage servicing rights	(72,968)	(83,523)
Proceeds from the sale of mortgage servicing rights	33,977	83,529
Net cash used in investing activities	(336,009)	(873,302)
Financing Activities		
Net increase in deposit accounts	365,026	395,160
Issuance of junior subordinated debt	75,000	
Net increase in Federal Home Loan Bank advances	648,000	821,409
Net (disbursement) receipt of payments of loans serviced for others	(8,226)	259,236
Net receipt of escrow payments	49,581	72,059
Proceeds from the exercise of stock options	1,627	757
Dividends paid to stockholders	(15,363)	(15,204)

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Net cash provided by financing activities	1,115,645	1,533,417
Net (decrease) increase in cash and cash equivalents	(3,320)	57,033
Beginning cash and cash equivalents	156,457	148,417
Ending cash and cash equivalents	\$ 153,137	\$ 205,450

Supplemental disclosure of cash flow information:

Loans receivable transferred to repossessed assets	\$ 10,855	\$ 18,396
Total interest payments made on deposits and other borrowings	\$ 100,329	\$ 84,094
Federal income taxes paid	\$	\$ 3,000
Loans held for sale transferred to loans held for investment	\$ 365,482	\$ 314,362

The accompanying notes are an integral part of these financial statements.

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Flagstar Bancorp, Inc.
Notes to Consolidated Financial Statements
Unaudited

Note 1. Nature of Business

Flagstar Bancorp, Inc. (Flagstar or the Company) is the holding company for Flagstar Bank, fsb (the Bank), a federally chartered stock savings bank founded in 1987. With \$14.3 billion in assets at March 31, 2005, Flagstar is the largest savings institution and second largest banking institution headquartered in Michigan.

Flagstar is a consumer-oriented financial services organization. The Company s principal business is obtaining funds in the form of deposits and borrowings and investing those funds in various types of loans. The acquisition or origination of single-family mortgage loans is the Company s primary lending activity. The Company also originates consumer loans, commercial real estate loans, and non-real estate commercial loans.

The single-family mortgage loans originated that conform to underwriting standards of FNMA, FHLMC or GNMA are securitized and sold on a servicing retained basis. The out-of-market servicing rights are then sold in a separate transaction. The Company may also invest in a significant amount of its loan production in order to maximize the Company s leverage ability and to receive the interest spread between earning assets and paying liabilities. The Company also acquires funds on a wholesale basis from a variety of sources and services a significant volume of loans for others.

The Bank is a member of the Federal Home Loan Bank System (FHLB) and is subject to regulation, examination and supervision by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). The Bank s deposits are insured by the FDIC through the Savings Association Insurance Fund (SAIF).

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and their non-trust subsidiaries. All significant intercompany balances and transactions have been eliminated.

The unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying interim financial statements are unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2004.

Certain amounts within the accompanying consolidated financial statements and the related notes have been reclassified to conform to the 2005 presentation.

Note 3. Recent Accounting Developments

Stock Based Compensation

In December 2004, the Financial Accounting Standards Board revised SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. The provisions of this statement were to become effective July 1, 2005 for all equity awards granted after that date. This statement requires a public entity to measure cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. During April 2005, the SEC adopted a rule that deferred the implementation

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date for most companies. Based on the SEC deferral, we will adopt this standard effective the first quarter of 2006. Management does not expect the standard to have a material impact on financial condition or liquidity.

Note 4. Stock-Based Compensation

The Company has two stock incentive plans, the 1997 Stock Option Plan and the 2000 Stock Incentive Plan (collectively, the Plans), which provide for the granting of non-qualified stock options, incentive stock options, restricted stock awards, performance stock awards, stock bonuses and other awards to our employees (including officers and directors). Awards are granted at the average market price of our stock on the grant date, vest over varying periods generally beginning six-months from the date of grant, and expire ten years from the date of grant.

As currently permitted by SFAS 123, the Company continues to measure and recognize compensation expense using the intrinsic value method specified in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). As required under the provisions of SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the following table discloses the pro forma net earnings and pro forma basic and diluted earnings per share had the fair value method been applied to all stock awards for the periods presented:

	For the three months ended March 31, 2005 2004 (in thousands)	
Net earnings as reported	\$ 19,778	\$ 36,957
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(575)	(718)
Pro forma net earnings	\$ 19,203	36,239
Basic earnings per share		
As reported	\$ 0.32	\$ 0.60
Pro forma	\$ 0.31	\$ 0.60
Diluted earnings per share		
As reported	\$ 0.31	\$ 0.57
Pro forma	\$ 0.30	\$ 0.56

Note 5. Segment Information

The Company's operations can be categorized into two business segments: home lending and banking. Each business operates under the same banking charter, but is reported on a segmented basis for this report. Each of the business lines is complementary to each other. The banking operation includes the gathering of deposits and investing those deposits in duration-matched assets primarily originated by the home lending operation. The banking group holds these loans in the investment portfolio in order to earn spread income. The home lending operation involves the origination, packaging and sale of mortgage loans in order to receive transaction income. The home lending group also services mortgage loans for others and sells mortgage servicing rights (MSRs) into the secondary market. Funding for the home lending operation is provided by deposits and borrowings obtained by the banking group. All of

our non-bank consolidated subsidiaries are included in the banking segment. All such subsidiaries are not material to the Company's operations.

Following is a presentation of financial information by segment for the periods indicated:

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For the three months ended March 31, 2005

	Banking Operation	Home Lending Operation	Elimination	Combined
		(in thousands)		
Net interest income	\$ 50,148	\$ 15,061	\$	\$ 65,209
Gain on sale revenue		14,004		14,004
Other income	9,491	12,067		21,558
Revenues	59,639	41,132		100,771
Earnings before taxes	30,253	549		30,802
Depreciation and amortization	2,023	21,156		23,179
Capital expenditures	5,573	2,759		8,332
Identifiable assets	13,255,837	2,518,005	(1,500,000)	14,273,842
Intersegment income(expense)	11,250	(11,250)		

For the three months ended March 31, 2005

	Banking Operation	Home Lending Operation	Elimination	Combined
		(in thousands)		
Net interest income	\$ 41,571	\$ 9,406	\$	\$ 50,977
Gain on sale revenue		53,917		53,917
Other revenue	15,931	8,233		24,164
Revenues	57,502	71,556		129,058
Earnings before taxes	28,153	29,224		57,377
Depreciation and amortization	1,647	27,227		28,874
Capital expenditures	7,463	1,576		9,039
Identifiable assets	9,414,648	3,754,103	(1,000,000)	12,168,751
Intersegment income(expense)	7,500	(7,500)		
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Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Selected Financial Ratios (in thousands, except per share data)**

	For the three months ended		
	March 31, 2005	March 31, 2004	
Return on average assets	0.57%	1.31%	
Return on average equity	10.69%	22.57%	
Efficiency ratio	63.24%	48.33%	
Equity/assets ratio (average for the period)	5.36%	5.81%	
Mortgage loans originated or purchased	\$ 7,126,740	\$ 9,450,310	
Other loans originated or purchased	\$ 443,861	\$ 163,145	
Mortgage loans sold	\$ 5,438,047	\$ 7,640,738	
Interest rate spread	1.90%	1.92%	
Net interest margin	2.00%	2.00%	
Average common shares outstanding	61,459	60,738	
Average fully diluted shares outstanding	63,899	64,236	
Charge-offs to average investment loans	0.26%	0.26%	
	March 31, 2005	December 31, 2004	March 31, 2004
Equity-to-assets ratio	5.21%	5.60%	5.43%
Core capital ratio (1)	6.24%	6.19%	6.58%
Total risk-based capital ratio (1)	10.99%	10.97%	12.01%
Book value per share	\$ 11.99	\$ 11.98	\$ 10.87
Number of common shares outstanding	62,006	61,358	60,832
Mortgage loans serviced for others	\$ 22,518,180	\$ 21,354,724	\$ 29,858,203
Capitalized value of mortgage servicing rights	0.95%	0.88%	0.87%
Ratio of allowance to non performing loans	64.6%	66.2%	66.1%
Ratio of allowance to investment loans	0.33%	0.36%	0.50%
Ratio of non performing assets to total assets	0.92%	0.99%	0.96%
Number of banking centers	123	120	100
Number of home loan centers	109	112	131
Number of salaried employees	2,404	2,396	2,502
Number of commissioned employees	838	980	1,124

(1)

Based on adjusted total assets for purposes of tangible capital and core capital, and risk-weighted assets for purposes of the risk-based capital and the total risk-based capital. These ratios are applicable to Flagstar Bank only.

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Results of Operations

Net Earnings

Net earnings for the three months ended March 31, 2005 were \$19.8 million (\$0.31 per share-diluted), a \$17.2 million decrease from the \$37.0 million (\$0.57 per share-diluted) reported in 2004. The decrease resulted from a \$42.5 million decrease in non-interest income and an increase in non-interest expense of \$1.3 million that was offset in part by a \$14.2 million increase in net interest income, a \$3.1 million decrease in the provision for losses and a \$9.4 million decrease in the provision for federal income taxes.

Segment reporting

Our operations can be categorized into two business segments: banking and home lending. Each business operates under the same banking charter, but is reported on a segmented basis for financial reporting purposes. The banking operation includes the gathering of deposits and investing those deposits in duration matched assets primarily originated by the home lending operation. The banking group holds these loans in the investment portfolio in order to earn interest spread income. The home lending operation involves the origination, packaging and sale of mortgage loans in order to receive transaction income. The home lending group also services mortgage loans for others and sells MSRs into the secondary market. Funding for our home lending group is provided by deposits and borrowings obtained by our banking group.

For certain financial information concerning the results of operations of our banking and home lending operations see Note 5 of the Unaudited Notes to Consolidated Financial Statements, in Item 1, Financial Statements, herein.

Banking operations

We provide a full range of banking services to consumers and small businesses in southern Michigan and Indiana. At March 31, 2005, the Bank operated a network of 123 banking centers. We continue to focus on expanding our branch network in order to increase our access to retail deposit funding sources.

In each successive period, the banking operation has expanded its deposit portfolio and banking centers. Each new banking center has been opened on a de novo basis. The result has been that each year revenues, expenses and assets related to this operation have increased. During the first quarter of 2005, revenues increased 3.7%, while pre-tax earnings increased 7.5% compared to the corresponding period in 2004. Additionally, identifiable assets increased 40.8% in 2005.

Further expansion of the deposit branch network is planned. During 2004, we opened 22 banking centers and three banking centers were opened in the first quarter of 2005. During 2005, we expect to expand our banking center network by up to 18 new banking centers. Also during 2005, we will enter our third state for deposit banking. We expect to open 14 branches over the next two years in the Atlanta, Georgia metropolitan area.

We do not expect that we will have an immediate increase in retail deposits by opening new facilities. Nonetheless, we believe that the growth in deposits will occur over time, with FHLB advances, municipal deposits and those deposit accounts garnered through the secondary market providing sufficient operational funding in the interim.

Despite our growing banking operation and the large number of banking centers that are not mature, the banking operation was responsible for 59.2% of revenues and 98.2% of pre-tax earnings during the three months ended March 31, 2005. During 2004, the banking operation produced 60.9% of pre-tax earnings.

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Home lending operations

Our home lending activities involve the origination or the purchase of mortgage loans. Our personnel originate loans and conduct business from 109 loan origination centers in 27 states. Our personnel also originate loans from the Bank's 123 banking centers. We purchase mortgage loans on a wholesale basis through a network of correspondents consisting of other banks, thrifts, mortgage companies, and mortgage brokers. This network includes home lending operations in all 50 states. The mortgage loans, the majority of which are subsequently sold on a servicing retained basis in the secondary mortgage market, conform to the underwriting standards of Freddie Mac, Fannie Mae or Ginnie Mae. The out-of-market servicing rights are usually sold in separate transactions. We also invest in a significant amount of our mortgage loan production in order to maximize our leverage ability and to receive the interest spread between the earning assets and paying liabilities.

The home lending operation also involves the servicing of mortgage loans for others. The servicing portfolio, which totals \$22.5 billion at March 31, 2005, generally becomes more valuable in a rising rate environment and typically provides counter-cyclical earnings for our home lending operation. In our capacity as a mortgage loan servicer, we maintain escrow balances for our customers. At March 31, 2005, we held \$714.0 million of escrow balances.

The home lending operation is a much more volatile source of earnings than the banking operation. This operation, for the most part, is reliant on the prevailing interest rate environment, which is outside of our control. The earnings volatility inherent in the mortgage banking operation is apparent in the revenues and pre-tax earnings of the operation. The results show that during the three months ended March 31, 2005, revenues decreased 42.5%, while pre-tax earnings decreased 98.2% compared to the corresponding period in 2004. The primary causes for these large decreases are the decreased mortgage loan production completed during the 2005 period as well as the large decreases in gains on loan sales and sales of mortgage servicing rights. The future revenue, earnings, and profitability of this operation are largely dependent on production volumes, servicing portfolio balances and the interest rate environment.

Net Interest Income

We recorded \$65.2 million in net interest income for the three months ended March 31, 2005. This level of interest income increased 27.8% from the \$51.0 million recorded for the comparable 2004 period. These results include a \$32.3 million increase in interest revenue, which was offset, by an \$18.0 million increase in interest expense. In this same period that we increased the average earning asset base by over \$2.4 billion. We also raised \$2.2 billion in average paying liabilities to fund these new assets. The liabilities used for these acquisitions and the liabilities that were used to replace maturing liabilities.

Earning assets as a whole repriced up 2 basis points while the liabilities repriced up 4 basis points on a like period comparison. These net decreases are reflected in the decrease in our net interest spread of 2 basis points to 1.90% for the three months ended March 31, 2005 from 1.92% for the comparable 2004 period.

On a sequential quarter basis, we reported a 9 basis point increase in the interest rate spread and 12 basis point increase in the interest margin. We reported an \$8.1 million, or 14.2% increase in net interest income during the current period versus the fourth quarter of 2004.

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The following table presents interest income from average earning assets, expressed in dollars and yields, and interest expense on average interest-bearing liabilities, expressed in dollars and rates. Interest income from earning assets includes the \$4.9 million and \$3.1 million of amortization of net premiums and the amortization of net deferred loan origination costs for the three months ended March 31, 2005 and 2004, respectively. Nonaccruing loans were included in the average loan amounts outstanding.

	Three Months ended March 31,					
	2005			2004		
	Average Balance	Interest	Yield/ Rate (in thousands)	Average Balance	Interest	Yield/ Rate
Earning assets:						
Loans receivable, net	\$ 12,709,716	\$ 162,689	5.12%	\$ 10,204,771	\$ 129,924	5.09%
Other	39,207	436	4.45	57,358	917	6.39
Total earning assets	12,748,923	\$ 163,125	5.12%	10,262,129	\$ 130,841	5.10%
Other assets	1,041,265			1,010,483		
Total assets	\$ 13,790,188			\$ 11,272,612		
Interest-bearing liabilities:						
Deposits	\$ 7,581,723	\$ 52,962	2.83%	\$ 5,860,340	\$ 34,049	2.34%
FHLB advances	4,493,132	41,052	3.71	3,656,265	36,742	4.04
Other	258,448	3,902	6.12	579,497	9,073	6.30
Total interest-bearing liabilities	12,333,303	\$ 97,916	3.22%	10,096,102	\$ 79,864	3.18%
Other liabilities	717,101			521,605		
Stockholders equity	739,784			654,905		
Total liabilities and Stockholders equity	\$ 13,790,188			\$ 11,272,612		
Net earning assets	\$ 415,620			\$ 166,027		
Net interest income		\$ 65,209			\$ 50,977	
Interest rate spread(1)			1.90%			1.92%
Net interest margin(2)			2.00%			2.00%
Ratio of average interest- earning assets to interest-bearing liabilities			103%			102%

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- (1) Interest rate spread is the difference between the total yield earned on interest-earning assets and the total rate of interest paid on interest-bearing liabilities.
- (2) Net interest margin is net interest income divided by average interest-earning assets.

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The following table presents the dollar amount of changes in interest income and interest expense for the components of earning assets and interest-bearing liabilities, which are presented in the preceding table. The table below distinguishes between the changes related to average outstanding balances (changes in volume while holding the initial rate constant) and the changes related to average interest rates (changes in average rates while holding the initial balance constant).

	Three months ended March 31, 2005 versus 2004		
	Increase (Decrease) due to:		
	Rate	Volume	Total
	(in thousands)		
Earning assets:			
Loans receivable, net	\$ 890	\$ 31,875	\$ 32,765
Other	(191)	(290)	(481)
Total	\$ 699	\$ 31,585	\$ 32,284
Interest bearing liabilities:			
Total deposits	\$ 8,843	\$ 10,070	\$ 18,913
FHLB advances	(4,142)	8,452	4,310
Other	(115)	(5,056)	(5,171)
Total	\$ 4,586	\$ 13,466	\$ 18,052
Change in net interest income	\$ (3,887)	\$ 18,119	\$ 14,232

Provision for Losses

The provision for losses was \$6.2 million for the three months ended March 31, 2005 down from \$9.3 million during the same period in 2004. The 2005 period included net charge-offs of \$6.8 million. The 2004 period included net charge-offs of \$4.5 million. Net charge-offs were an annualized 0.26% of average investment loans outstanding during both the three months ended March 31, 2005 and 2004, respectively.

The provision for loan loss increased \$6.2 million for the three months ended March 31, 2005 when compared to no loan loss recorded for the three months ended December 31, 2004. Net charge-offs were an annualized 0.17% of average investment loans outstanding for the year ended December 31, 2004.

Non-Interest Income

During the three months ended March 31, 2005, non-interest income decreased \$42.5 million to \$35.6 million from \$78.1 million in the comparable 2004 period. The rate environment generally slowed the amount of mortgage loan refinances generated in the 2005 period to \$4.3 billion compared to \$6.7 billion in the same 2004 period. The average origination rate equaled 5.72% for the three months ended March 31, 2005 compared to 5.37% for the same period in 2004. This refinancing slowdown negatively affected the amount of loan sale gains achieved. Further, we sold significantly less mortgage servicing rights during the 2005 period compared to 2004 that reduced our net gain on

sales of mortgage servicing rights. Loan administration income decreased during the 2005 period compared to 2004 due to the fact that we were servicing fewer loans in the 2005 period.

Loan fees and charges

Net loan fees collected during the three months ended March 31, 2005 totaled \$2.6 million compared to \$4.1 million collected during the comparable 2004 period. This decrease is the result of a decrease in total loan production of \$2.1 billion to \$7.5 billion for the quarter ended March 31, 2005, compared to \$9.6 billion in the same 2004 period.

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Deposit fees and charges

During 2005, we collected \$3.6 million in deposit fees versus \$2.9 million collected in the comparable 2004 period. This increase is attributable to the increase in our deposits as our banking franchise continues to expand.

Loan Administration

Net loan administration fee income decreased to \$5.9 million during the three months ended March 31, 2005, from \$8.2 million in the 2004 period. This \$2.3 million decrease was the result of the \$6.9 million decrease in the servicing fee revenue which was partially offset by the \$4.6 million decrease in amortization of the mortgage servicing rights (MSR). The decrease in the servicing fee revenue was the result of loans serviced for others averaging \$22.4 billion during the 2005 period versus \$29.1 billion during the 2004 period. The decreased amortization amount was also the result of the reduction in the amount of MSRs in comparison to the corresponding period in 2004.

At March 31, 2005, the unpaid principal balance of loans serviced for others was \$22.5 billion versus \$21.4 billion serviced at December 31, 2004, and \$29.9 billion serviced at March 31, 2004. The weighted average servicing fee on loans serviced for others at March 31, 2005 was 0.344% (i.e., 34.4 basis points). The weighted average age of the loans serviced for others portfolio at March 31, 2005 was 14 months old.

Net Gain on Loan Sales

Unlike typical banking institutions, our net gain on loan sales is the transaction fee income generated from the origination, securitization and sale of loans completed by our home lending group.

Our recognition of gain or loss on the sale of loans is accounted for in accordance with SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS 140 requires that a transfer of financial assets in which we surrender control over the assets be accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. In our loan sale transactions, the only interests retained are the mortgage servicing rights created when the underlying loan is sold.

The variance in the amount of gain on sale recognized is attributable to the volume of mortgage loans sold and the gain on sale spread achieved. The volatility in the gain on sale spread is attributable to market pricing, which changes with demand and the general level of interest rates. Typically, as the volume of acquirable loans increases in a lower or falling interest rate environment, we are able to pay less to acquire loans and are then able to achieve higher spreads on the eventual sale of the acquired loans. In contrast, when interest rates rise, the volume of acquirable loans decreases and therefore we may need to pay more in the acquisition phase, thus decreasing our net gain achievable.

Also included in loan sales is the recording of mark to market pricing adjustments recorded in accordance with SFAS 133, *Accounting for Derivative Instruments* (FASB 133) and the recording of representation and warranty provisions recorded to offset losses from either loans sold that may be repurchased from secondary market investors or that we may indemnify the purchaser for any related losses. At March 31, 2005, we had forward contracts to sell mortgage-backed securities of \$2.5 billion and interest rate lock commitments to originate loans of \$2.5 billion.

We routinely sell residential mortgage loans to the secondary market. As part of these sales, we make customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. We are not required to reimburse purchasers for any missed loan payments or for any reduced income as a result of a loan being prepaid. If any loans do not comply with the representations and warranties, we may repurchase the loans or else indemnify the purchaser for any related losses.

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The following table provides a reconciliation of the net gain on sale recorded on loans sold within the periods shown (in thousands):

	Three months ended March 31,	
	2005	2004
Net gain recorded	\$ 9,756	\$ 32,132
Add: FASB 133 adjustments	(3,135)	(6,704)
Add: provision charged to earnings	1,002	8,067
Gain recorded on loans sold	\$ 7,623	\$ 33,495
Loans sold	\$ 5,438,047	\$ 7,640,738
Spread achieved	0.14%	0.44%

For the three months ended March 31, 2005, net gain on loan sales decreased \$22.3 million, to \$9.8 million, from \$32.1 million in the 2004 period. The 2005 period reflects the sale of \$5.4 billion in loans versus \$7.6 billion sold in the 2004 period. The interest rate environment and continued intense competition for mortgage loans in the 2005 period resulted in a lower mortgage loan origination volume (\$7.1 billion in the 2005 period vs. \$9.5 billion in the 2004 period) and a smaller or narrower gain on sale spread (14 basis points in the 2005 period versus 44 basis points in the 2004 period) recorded when the loans were sold. The interest rate environment in the 2005 period resulted in a lower number of refinances (59% in the 2005 period vs. 70% in the 2004 period).

Net Gain on the Sale of Mortgage Servicing Rights

The volatility in the level of net gains on mortgage servicing rights is attributable to the variance in the gain on sale spread and the volume of MSRs sold. The spread is attributable to market pricing which changes with demand and the general level of interest rates. Upon the sale of the underlying mortgage loan, the MSR is created and is capitalized at the fair value of the MSR created. If the MSR is sold in a flow transaction shortly after the acquisition, little to no gain is recorded on the sale. If the MSR has any seasoning at the time it is sold, the MSR capitalized in a lower interest rate environment generally will have an increased market value whereas the MSR capitalized in a higher interest rate environment will generally sell at a market price below the original fair value recorded. The MSRs are sold in a separate transaction from the sale of the underlying loan.

Management has historically maintained a profitable spread between the price at which it originates MSRs and the price level at which the MSR can be sold in the secondary market. Management has sold MSRs in bulk based on market opportunities in an attempt to maximize their value. Management has not historically been required to record a valuation adjustment to the MSRs portfolio for impairment. Impairment in a MSR portfolio is typically created by a sudden and unexpected change in the interest rate environment. Since the interest rate environment is beyond the control of management, there can be no assurances made that we will be able to avoid an impairment charge in the future.

We sold MSRs attributable to underlying loans totaling \$2.5 billion during the 2005 period versus \$6.4 billion during the 2004 period. We sold a \$2.5 billion bulk servicing package in the 2005 period versus a \$4.0 billion package in the 2004 period. During 2005, we did not sell any servicing rights on a flow basis and only \$1.1 million of loans on a servicing released basis. During 2004, we sold \$2.1 billion of newly originated servicing rights on a flow basis and \$290.1 million of loans on a servicing released basis.

For the three months ended March 31, 2005, the net gain on the sale of mortgage servicing rights decreased from \$21.8 million during the 2004 period to \$4.2 million. The gain on sale in the 2004 period was higher than the gain recorded in the 2005 period because of the better spread achieved in 2004 and the reduction in the sales volume in 2005.

Other fees and charges

During the three months ended March 31, 2005, we recorded \$2.5 million in dividends received on FHLB stock, compared to the \$2.6 million received during the three months ended March 31, 2004. At March 31, 2005 and 2004, we owned \$250.1 million and \$227.4 million of FHLB stock, respectively.

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We also recorded \$1.1 million and \$1.0 million in subsidiary income for the three months ended March 31, 2005 and 2004, respectively.

Non-Interest Expense

The following table sets forth the components of our non-interest expense, along with the allocation of expenses related to loan originations that are deferred pursuant to SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. As required by SFAS No. 91, mortgage loan fees and certain direct origination costs (principally compensation and benefits) are capitalized as an adjustment to the basis of the loans originated during the period. Certain other expenses associated with loan production, however, are not required or allowed to be capitalized. These expense amounts are reflected on our statement of earnings. Management believes that the analysis of non-interest expense on a gross basis (i.e., prior to the deferral of capitalized loan origination costs) more clearly reflects the changes in non-interest expense when comparing periods.

	Three months ended March 31,	
	2005	2004
	(in thousands)	
Compensation and benefits	\$ 37,556	\$ 38,437
Commissions	21,080	23,668
Occupancy and equipment	16,650	17,529
Advertising	2,125	2,391
Federal insurance premium	296	262
Communication	1,553	1,859
Other taxes	2,068	2,951
General and administrative	11,440	12,331
Total	92,768	99,428
Less: capitalized direct costs of loan closings	(29,045)	(37,049)
Total, net	\$ 63,723	\$ 62,379
Efficiency ratio (1)	63.24%	48.33%

(1) Total operating and administrative expenses divided by the sum of net interest income and non-interest income.

The following are the major changes affecting the quarterly statement of earnings:

- § The banking operation conducted business from 23 more facilities at March 31, 2005 than at March 31, 2004.
- § We conducted business from 22 fewer retail loan origination offices at March 31, 2005 than at March 31, 2004.
- § The home lending operation originated \$7.1 billion in residential mortgage loans during the 2005 quarter versus \$9.5 billion in the comparable 2004 quarter.
- § We employed 2,404 salaried employees at March 31, 2005 versus 2,502 salaried employees at March 31, 2004.

§ We employed 134 full-time national account executives at March 31, 2005 versus 128 at March 31, 2004.

§ We employed 704 full-time retail loan originators at March 31, 2005 versus 996 at March 31, 2004.

Non-interest expense, excluding the capitalization of direct loan origination costs, decreased \$6.6 million to \$92.8 million during the three months ended March 31, 2005, from \$99.4 million for the comparable 2004 period. This decrease in costs is partially explained above, but further explanation follows. The reduction also demonstrates management's commitment to reducing non-interest expenses.

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The decreased compensation and benefits expense of \$0.8 million is primarily the result of the decreased personnel count utilized in the home lending operation offset by the salary increases given to the remaining employees and the staff that was required to support the additional banking centers.

The largest change occurred in commissions paid to the commissioned sales staff. On a year over year basis there was a \$2.6 million decrease. This is the direct result of the decreased volume of mortgage loan originations during the period offset in part by an increase in the commission structure. During the 2005 period commissions were 30.0 basis points of loan originations versus 25.0 basis points during the 2004 period.

The majority of the \$0.8 million decrease in occupancy and equipment costs are directly attributable to the closing of 22 loan origination centers due to reduced loan volume.

The decrease in general and administrative expense is reflective of the decreased mortgage loan originations and the decreased number of retail loan origination centers offset in part by the increased number of banking centers in operation during the period.

During the three months ended March 31, 2005, we capitalized direct loan origination costs of \$29.0 million, a decrease of \$8.0 million from \$37.0 million for the comparable 2004 period. This decrease is a result of the decrease in mortgage loan production during the 2005 period versus the 2004 production. The 2005 deferral equates to a capitalization of \$751 per loan versus \$692 per loan in the 2004 period.

Financial Condition

Assets

Our assets totaled \$14.3 billion at March 31, 2005, an increase of \$1.2 billion, or 9.2%, as compared to \$13.1 billion at December 31, 2004. This increase was primarily due to an increase in earning assets at March 31, 2005.

Cash and cash equivalents

Cash and cash equivalents decreased from \$156.5 million at December 31, 2004 to \$153.1 million at March 31, 2005.

Mortgage-backed securities held to maturity

Mortgage-backed securities decreased from \$20.7 million at December 31, 2004 to \$19.0 million at March 31, 2005. The decrease was attributed to payoffs received. There were no additions to the portfolio in the three months ended March 31, 2005.

Investment securities

Our investment securities increased from \$18.4 million at December 31, 2004 to \$19.6 million at March 31, 2005. The investment portfolio is limited to a small portfolio of contractually required collateral, regulatory required collateral, and investments made by non-bank subsidiaries.

Loans available for sale

Mortgage loans available for sale increased \$0.5 billion, or 33.3%, to \$2.0 billion at March 31, 2005, from \$1.5 billion at December 31, 2004. This increase is primarily attributable to the timing of the loan sales. At March 31, 2005, the majority of these loans were originated within the three weeks prior to the end of the quarter.

Table of Contents**Investment loan portfolio**

The investment loan portfolio at March 31, 2005 increased \$0.6 billion from December 31, 2004. The increase included a \$0.4 billion increase in mortgage loans and a \$0.2 billion increase in consumer loans.

	March 31, 2005	December 31, 2004	March 31, 2004
Loans held for investment:			
Single family mortgage	\$ 9,121,484	\$ 8,657,293	\$ 6,503,734
Second mortgage	234,549	196,518	135,298
Construction	64,926	67,640	60,369
Commercial real estate	813,581	751,730	589,906
Warehouse	182,541	249,291	520,120
Commercial	8,633	8,415	8,156
Consumer	769,694	627,576	288,331
Total	\$ 11,195,408	\$ 10,558,463	\$ 8,105,914

Allowance for losses

The allowance for loan losses remained relatively static due to a slight improvement in delinquencies and a minimal change in non-performing loans. It is management's belief that the current reserves are adequate to offset the inherent risk associated with our investment loan portfolio. The investment loan portfolio increased \$0.6 billion, or 5.7%, during the three month period ended March 31, 2005. The allowance for losses totaled \$37.0 million at March 31, 2005 and \$37.6 million at December 31, 2004, respectively. The allowance for losses as a percentage of non-performing loans was 64.6% and 66.2% at March 31, 2005 and December 31, 2004, respectively. Our non-performing loans (i.e., loans that are past due 90 days or more) totaled \$57.3 million and \$56.9 million at March 31, 2005 and December 31, 2004, respectively. The allowance for losses as a percentage of investment loans was 0.33% and 0.36% at March 31, 2005 and December 31, 2004, respectively.

The allowance for losses is considered adequate based upon management's assessment of relevant factors, including the types and amounts of non-performing loans, historical, and current loss experience on such types of loans, and the current economic environment. The following table provides the amount of delinquent loans at the date listed. At March 31, 2005, 90% of all delinquent loans are loans in which we had a first lien position on residential real estate.

	March 31, 2005	December 31, 2004	March 31, 2004
Days Delinquent			
30	\$ 36,727	\$ 33,918	\$ 33,089
60	15,125	13,247	10,390
90	57,349	56,885	61,762
Total	\$ 109,201	\$ 104,050	\$ 105,241
Investment loans	\$ 11,195,408	\$ 10,558,463	\$ 8,105,914

Delinquency %	0.98%	0.99%	1.30%
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The following shows the activity in the allowance for loan losses during the indicated periods (in thousands):

Activity Within the Allowance For Loan Losses

	March 31, 2005	March 31, 2004	December 31, 2004
Beginning balance	\$ 37,627	\$ 36,017	\$ 36,017
Provision for losses	6,246	9,302	16,077
Charge-offs			
Mortgage	(4,530)	(4,345)	(14,629)
Consumer	(1,157)	(210)	(1,150)
Commercial	(2,200)	(71)	(290)
Construction			(2)
Other	(91)	(74)	(717)
Total	(7,978)	(4,700)	(16,788)
Recoveries			
Mortgage	306	98	1,081
Consumer	51	97	242
Commercial	766		998
Other			
Total	1,123	195	2,321
Ending balance	\$ 37,018	\$ 40,814	\$ 37,627
Net charge-off ratio	0.26%	0.26%	0.17%

Accrued interest receivable

Accrued interest receivable increased from \$37.0 million at December 31, 2004 to \$40.3 million at March 31, 2005 due to the timing of payments, as well as the increase in our total loan portfolio. We typically collect loan interest one month in arrears.

FHLB stock

Our investment in FHLB stock increased from \$234.8 million at December 31, 2004 to \$250.1 million at March 31, 2005. The investment is required to permit the Bank to borrow from the Federal Home Loan Bank of Indianapolis (FHLBI). The increase includes purchases of additional shares as well as \$2.5 million of dividends reinvested.

Reposessed assets

Reposessed assets increased from \$37.8 million at December 31, 2004 to \$38.8 million at March 31, 2005. This increase was caused by a larger amount of loans in a foreclosed status that are yet to be sold.

Repurchased assets

We routinely sell residential mortgage loans to the secondary market. As part of these sales, we make customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. We are not required to reimburse purchasers for any missed loan payments or for any reduced income as a result of a loan being prepaid. If any loans do not comply with the representations and warranties, we may repurchase the loans or else indemnify the purchaser for any related losses. In order to account for the repurchase and indemnification exposure that results from our representations and warranties, we maintain a secondary market reserve.

These repurchased assets are typically non-performing and totaled a net \$17.1 million at December 31, 2004 and \$16.9 million at March 31, 2005. The assets have been adjusted by a specific reserve of \$3.5 million at December 31, 2004 and \$4.0 million at March 31, 2005. During all of 2004, we repurchased \$68.7 million in non-performing loans. During the three months ended March 31, 2005 and 2004 we repurchased \$14.6 million and \$25.7 million in non-performing loans, respectively. In most instances, these loans are acquired and subsequently foreclosed upon and later sold.

Table of Contents**Mortgage servicing rights**

Mortgage servicing rights totaled \$215.0 million at March 31, 2005, an increase of \$27.0 million from the \$188.0 million reported at December 31, 2004. During the three months ended March 31, 2005, we capitalized \$72.9 million, amortized \$16.2 million, and sold \$29.7 million in mortgage servicing rights.

At March 31, 2005, the fair value of the MSRs was approximately \$287.5 million based on an internal valuation model which utilized an average discounted cash flow equal to 10.84%, an average cost to service of \$45 per conventional loan and \$55 per government or adjustable rate loan, and a weighted constant prepayment assumption equal to 19.1%. The portfolio contained 174,373 loans, had a weighted rate of 6.08%, a weighted remaining term of 308 months, and had been seasoned 14 months.

The principal balance of the loans serviced for others stands at \$22.5 billion at March 31, 2005 versus \$21.4 billion at December 31, 2004. The capitalized value of the mortgage servicing rights was 0.95% at March 31, 2005 and 0.88% at December 31, 2004.

Activity of Mortgage Loans Serviced for Others (in thousands):

	Three months ended March 31, 2005	Three months ended March 31, 2004
Beginning balance	\$ 21,354,724	\$ 30,395,079
Loans sold	5,438,047	7,640,738
Subtotal	26,792,771	38,035,817
Loans sold servicing released	514,552	290,096
Servicing sold (flow basis)		2,069,122
Servicing sold (bulk basis)	2,475,832	3,998,836
Subtotal	2,476,933	6,358,054
Loan prepayments	1,284,207	1,819,560
Ending balance	\$ 22,518,180	\$ 29,858,203

Other assets

Other assets decreased \$7.6 million, or 3.7%, to \$200.4 million at March 31, 2005, from \$208.0 million at December 31, 2004. The majority of this decrease was attributable to the collection of receivables in conjunction with the sale of residential mortgage loan servicing rights during the later portion of 2004. Upon the sale of the mortgage servicing rights a receivable is recorded for a portion of the sale proceeds. The balance due is normally received within 180 days after the sale date.

Liabilities

Our total liabilities increased \$1.1 billion, or 8.9%, to \$13.5 billion at March 31, 2005, from \$12.4 billion at December 31, 2004. The majority of this increase was found in our interest bearing liabilities.

Deposit accounts

Deposit accounts increased \$0.3 billion to \$7.7 billion at March 31, 2005, from \$7.4 billion at December 31, 2004.

Demand deposit accounts decreased \$37.3 million to \$339.2 million at March 31, 2005, from \$376.5 million at December 31, 2004.

Savings deposit accounts decreased \$322.5 million to \$561.6 million at March 31, 2005, from \$884.1 million at December 31, 2004.

Money market deposits increased \$90.0 million to \$949.6 million at March 31, 2005, from \$859.6 million at December 31, 2004.

Certificates of deposits increased \$0.4 billion to \$2.5 billion at March 31, 2005, from \$2.1 billion at December 31, 2004.

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The municipal deposit channel now totals \$1.6 billion. The account totals increased \$0.3 billion during the three months ended March 31, 2005. These deposits have been garnered from local government units within our retail market area.

National deposit accounts decreased a net \$0.1 billion to \$1.8 billion at March 31, 2005, from \$1.9 billion at December 31, 2004. During the three months ended March 31, 2005, the newly acquired national deposits totaled \$0.2 billion and the matured national deposits totaled \$0.3 billion. These deposits have a weighted maturity of 23 months and are used for interest rate risk management.

Deposit Portfolio
(in thousands)

(4) Effective as of May 3, 2017, Mr. Carter was elected to our board of directors.

(5) Effective as of December 8, 2017, Mr. Osnoss was elected to our board of directors.

(6) Effective as of May 3, 2017, Mr. Tomlinson was elected to our board of directors.

In 2017, our Compensation Committee undertook a competitive review of non-employee director compensation. Based on the results of that review, the Compensation Committee determined it was appropriate to make, and our board of directors approved, the following compensation adjustments. Non-employee directors receive an annual retainer of \$40,000. Our Lead Independent Director is paid an additional annual retainer of \$20,000. The chair of our Audit Committee is paid an additional annual retainer of \$20,000, and members of our Audit Committee other than the chair are paid an additional annual retainer of \$10,000. The chair of our Compensation Committee is paid an additional annual retainer of \$15,000, and members of our Compensation Committee other than the chair are paid an additional annual retainer of \$7,500. The chair of our Nominating and Corporate Governance Committee is paid an additional annual retainer of \$10,000, and members of our Nominating and Corporate Governance Committee other than the chair are paid an additional annual retainer of \$5,000.

In addition to the compensation described above, each new non-employee director who joins our board of directors, upon election to our board of directors, is granted an initial restricted stock unit award covering shares of our common stock with a target value of \$400,000 using intrinsic value. Each initial restricted stock unit award will vest over a three-year period with 1/3 of the restricted stock units scheduled to vest on each of the first three anniversaries of the grant date, subject to the director's continued service as of each such date.

In addition, all non-employee directors will receive, on the date of each of our annual stockholder meetings, an annual restricted stock unit award covering shares of our common stock with a target value of \$220,000 using intrinsic value (with the calculation of the value of such awards to be determined on the same day that the Compensation Committee approves the awards). Each annual restricted stock unit award will vest upon the earlier of (i) the first anniversary of the date of grant; and (ii) the date of the next annual meeting of shareholders, in each case subject to the director's continued service as of such date.

To align directors' interests with those of our stockholders, each non-employee director on our board of directors is expected to accumulate and hold a number of shares of our common stock with a value equal to at least five times his or her annual cash retainer for service on our board of directors (not including retainers for serving as a member or chair of any committee of our board of directors), and to maintain this minimum amount of stock ownership throughout his or her tenure on our board of directors. Existing and new non-employee directors are expected to achieve the applicable level of ownership by February 2022.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Policies and Procedures for Related Party Transactions

We have adopted a formal written policy that our executive officers, directors, holders of more than 5% of any class of our voting securities, and any member of the immediate family of and any entity affiliated with any of the foregoing persons, are not permitted to enter into a related party transaction with us, in which the amount involved exceeds \$120,000, without the approval or ratification of our Audit Committee. In approving or rejecting any such proposal, our Audit Committee will take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction.

Related Party Transactions

In addition to the compensation arrangements discussed in the section titled "Executive Compensation," in fiscal 2017, we were party to the following transactions in which the amount involved exceeded or will exceed \$120,000, and in which any director, director nominee, executive officer or holder of more than 5% of any class of our voting stock, or any member of the immediate family of or entities affiliated with any of them may be deemed to have or have had a direct or indirect material interest.

Subscription Services Agreements

Steffan C. Tomlinson, a member of our board of directors since May 2017, served as Chief Financial Officer of Palo Alto Networks, Inc. from February 2012 to March 2018. We have a vendor and a customer relationship with Palo Alto Networks, Inc. that we consider arms-length on terms that are consistent with similar transactions with our other similarly situated customers. In fiscal 2017, we incurred expenses of approximately \$0.7 million to Palo Alto Networks in hardware, license, maintenance and support fees, while we billed Palo Alto Networks, Inc. approximately \$0.3 million for our services. In addition, we expect to pay approximately \$0.7 million and receive approximately \$0.3 million in such fees for fiscal 2018.

Investments by Firms Affiliated with our Directors

In 2017, we entered into an agreement with Silver Lake, pursuant to which Silver Lake and certain other parties invested an aggregate of \$300.0 million in principal amount of 5.75% senior convertible notes due July 1, 2021 (the "2021 Notes"). In connection with the investment, Silver Lake maintains a right to nominate two individuals for election to our board of directors, subject to certain limitations. Joseph Osnoss, a managing director of Silver Lake, was appointed to our board of directors in December 2017 as one of Silver Lake's representative.

In addition, in connection with the sale of the 2021 Notes, we entered into an investment agreement with Silver Lake providing Silver Lake with the option to purchase all or a portion of any equity securities, or instruments convertible

into or exchangeable for any equity securities, in any proposed offerings by us until the earlier of June 2019 or such time as Silver Lake no longer has a representative and no longer has rights to have a representative on our board of directors.

As of February 28, 2018, \$300.0 million aggregate principal amount of the 2021 Notes was outstanding. We did not pay any interest on the 2021 Notes in fiscal 2017.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and officers. The indemnification agreements and our amended and restated certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware General Corporation Law.

Transactions with Cornerstone OnDemand Foundation

We helped form the Cornerstone OnDemand Foundation, or the Foundation, in 2010. The Foundation's board of directors has five members, including Adam Miller, our Chief Executive Officer. None of the other four directors is an officer or employee of the Company. In fiscal 2017, we provided at no charge certain resources to the Foundation, with approximate value of \$3.4 million. In addition, we expect to provide at no charge certain resources to the Foundation with approximate value of \$3.5 million in 2018.

Transactions with The Corner Restaurant

Our CEO, has an ownership interest in The Corner Restaurant. In fiscal 2017, we incurred expenses of approximately \$0.3 million to The Corner Restaurant related to use of the restaurant and its services. In addition, we expect to incur expenses of approximately \$0.3 million for fiscal 2018. However, our CEO is not involved in purchasing decisions we make with respect to The Corner Restaurant.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of February 28, 2018 with respect to the beneficial ownership of our common stock by (i) each person we believe beneficially holds more than 5% of the outstanding shares of our common stock based solely on our review of SEC filings; (ii) each director and nominee for director; (iii) each named executive officer listed in the table entitled "Summary Compensation Table" under the section entitled "Executive Compensation"; and (iv) all directors and executive officers as a group. The information provided in the table is based on the Company's records, information filed with the SEC and information provided to us, except where otherwise noted.

As of February 28, 2018, 57,313,233 shares of our common stock were issued and outstanding. In computing the number of shares of stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares subject to options held by that person that are currently exercisable or exercisable within 60 days of February 28, 2018, and shares issuable upon the vesting of restricted stock units within 60 days of February 28, 2018. However, we did not deem these shares to be outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, all persons named as beneficial owners of our common stock have sole voting power and sole investment power with respect to the shares indicated as beneficially owned. Unless otherwise noted below, the address of each stockholder listed on the table is c/o Cornerstone OnDemand, Inc., 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)	Percentage	
5% stockholders:			
Silver Lake Group, L.L.C.(2)	6,999,992	12.2	%
Eminence Capital, LP(3)	5,708,593	10.0	%
The Vanguard Group, Inc.(4)	4,371,394	7.6	%
BlackRock, Inc.(5)	3,770,402	6.6	%
RGM Capital, LLC(6)	3,057,896	5.3	%
Praesidium Investment Management Company, LLC(7)	2,942,478	5.1	%
Named executive officers and directors:			
Adam L. Miller(8)	5,440,737	9.3	%
Brian L. Swartz(9)	46,466	*	
Vincent Belliveau(10)	302,178	*	
David J. Carter(11)	155,723	*	
Mark Goldin(12)	162,932	*	
Kirsten Helvey(13)	263,268	*	
R. C. Mark Baker(14)	53,900	*	
Harold W. Burlingame(15)	163,155	*	
Dean Carter	—	*	
Robert Cavanaugh(16)	62,550	*	
Joseph Osnoss	—	*	
Joseph P. Payne(17)	64,050	*	
Kristina Salen(18)	42,850	*	
Steffan C. Tomlinson	—	*	
All directors and executive officers as a group (15 people)(19)	6,955,224	11.7	%

(*) Represents beneficial ownership of less than 1%.

Shares shown in the table above consist of shares (i) held in the beneficial owner's name, (ii) held jointly by the (1) beneficial owner with others, (iii) held in the name of a bank, nominee or trustee for the beneficial owner's account or (iv) held by the beneficial owner pursuant to any voting trust or similar agreement.

According to a Schedule 13D filed with the SEC on December 18, 2017 and information provided to the Company, the 6,999,992 shares of Common Stock which may be deemed to be beneficially owned by Silver Lake Group, L.L.C. consists of 5,196,232 and 1,803,760 shares of Common Stock which would be received upon conversion of the \$218,242,000 and \$75,758,000 aggregate principal amount of the Company's 5.75% Convertible senior notes due 2021 held by SLP Chicago Holdings, L.P. and SLC Chicago Co-Invest II, L.P., respectively, based on the initial conversion price of the convertible notes. The general partner of SLP Chicago Holdings, L.P. is SLP (2) Chicago GP, L.L.C. and the managing member of SLP Chicago GP, L.L.C. is Silver Lake Alpine Associates, L.P. The general partner of SLC Chicago Co-Invest II, L.P. is SLC Co-Invest GP, L.L.C. and the managing member of each of Silver Lake Alpine Associates, L.P. and SLC Co-Invest GP, L.L.C. is Silver Lake Group, L.L.C. The managing members of Silver Lake Group, L.L.C. are Michael Bingle, Egon Durban, Kenneth Hao and Gregory Mondre. The address for each of the persons and entities above is 2775 Sand Hill Road, Suite 100, Menlo Park, CA 94025.

(3) According to a Schedule 13G/A filed with the SEC on February 14, 2018, Eminence Capital serves as the management company or investment advisor to several Eminence funds and a separately managed account and may be deemed to have voting and dispositive power over shares held for the accounts of the Eminence funds and the separately managed account. Eminence GP serves as general partner or manager with respect to the shares

directly owned by some of the Eminence funds and may be deemed to have voting and dispositive power over the shares held for the accounts of certain Eminence funds. Mr. Sandler is the chief executive officer of Eminence Capital and managing member of Eminence GP and may be deemed to have voting and dispositive power over the shares held for the accounts of the Eminence funds and the separately managed account, and individually over shares owned by certain family accounts and other related accounts over which Mr. Sandler has investment discretion. Eminence Capital and Sandler have shared voting and dispositive power with respect to all reported 5,708,593 shares, Eminence GP has shared voting and dispositive power with respect to 4,328,923 shares and Mr. Sandler has sole voting and dispositive power with respect

to 3,585 shares. The business address of Eminence Capital, Eminence GP and Sandler is 65 East 55th Street, 25th Floor, New York, New York 10022.

According to a Schedule 13G filed with the SEC on February 9, 2018, the 4,371,394 shares reported by The Vanguard Group, Inc. (“Vanguard”) are owned, or may be deemed to be beneficially owned, by Vanguard, an investment adviser, which holds sole voting power over 103,208 shares, shared voting power over 6,331 shares, sole dispositive power over 4,266,055 shares and shared dispositive power over 105,339 shares. Vanguard (4)Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 99,008 shares as a result of its serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, is the beneficial owner of 10,531 shares as a result of its serving as investment manager of Australian investment offerings. The address for Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

According to a Schedule 13G/A filed with the SEC on January 29, 2018, the 3,770,402 shares reported by BlackRock, Inc. (“BlackRock”) are owned, or may be deemed to be beneficially owned, by BlackRock, the parent holding company, which holds sole voting power over 3,641,100 shares and sole dispositive power over 3,770,402 shares. The 3,770,402 shares reported are owned, directly or indirectly, by BlackRock or its subsidiaries, (5)BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd., BlackRock Investment Management, LLC. The address for Blackrock is 55 East 52nd Street, New York, NY10022.

According to a Schedule 13D filed with the SEC on December 5, 2017, the 3,057,836 shares reported by RGM Capital, LLC (“RGM Capital”) are owned, or may be deemed to be beneficially owned, by RGM Capital, which (6)holds shared voting power over 3,057,836 shares. As the managing member of RGM Capital, Robert G. Moses may be deemed to beneficially own the shares reported by RGM Capital. The address for RGM Capital is 9010 Strada Stell Court, Suite 105, Naples, FL 34109.

According to a Schedule 13D filed with the SEC on November 15, 2017, the 2,942,478 shares reported by Praesidium Investment Management Company, LLC (“Praesidium”) are owned, or may be deemed to be beneficially (7)owned, by Praesidium, which holds sole voting power over 2,757,021 shares and sole dispositive power over 2,942,478 shares. As the managing members of Praesidium, each of Kevin Oram and Peter Uddo may be deemed to beneficially own the shares reported by Praesidium. The address for Praesidium is 1411 Broadway-29th Floor, New York, New York 10018.

Consists of (i) 3,399,090 shares held of record by Mr. Miller; (ii) 755,991 shares held of record by the Miller Family Irrevocable Trust dated as of July 1, 2010, for which the Goldman Sachs Trust Company of Delaware serves as trustee and special trustee, Mr. Miller’s spouse serves as investment advisor and Mr. Miller has the power to remove and replace the trustee, special trustee and investment advisor; (iii) 300,000 shares held of record by the (8)MST Trust dated as of December 17, 2012, for which Goldman Sachs Trust Company of Delaware serves as trustee, Mr. Miller’s father serves as distribution advisor, Mr. Miller serves as investment advisor and Mr. Miller has the power to remove and replace the trustee, distribution advisor and investment advisor; (iv) options to purchase 974,325 shares of Common Stock that are exercisable within 60 days of February 28, 2018; and (v) 11,331 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018.

Consists of (i) 11,973 shares held of record by Mr. Swartz; (ii) 23,958 shares issuable pursuant to stock options (9)exercisable within 60 days of February 28, 2018; and (iii) 10,535 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018.

Consists of (i) 163,175 shares held of record by Mr. Belliveau; (ii) 132,045 shares issuable pursuant to stock (10)options exercisable within 60 days of February 28, 2018; and (iii) 6,958 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018.

(11)Consists of (i) 15,607 shares held of record by Mr. Carter; (ii) 133,158 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018; and (iii) 6,958 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018. Mr. Carter retired from his position as our Chief Sales Officer,

effective as of March 31, 2018. For information regarding our transition agreement with Mr. Carter, please see “- Compensation Discussion and Analysis - Offer Letters and Employment Agreements; Potential Payments Upon Termination, Change in Control or Upon Termination Following Change in Control.”

Consists of (i) 16,141 shares held of record by Mr. Goldin; (ii) 139,833 shares issuable pursuant to stock options (12)exercisable within 60 days of February 28, 2018; and (iii) 6,958 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018.

- (13) Consists of (i) 14,265 shares held of record by Ms. Helvey; (ii) 242,045 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018; and (iii) 6,958 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018. Ms. Helvey retired from her position our Chief Operating Officer, effective as of March 31, 2018. For information regarding our transition agreement with Ms. Helvey, please see “Compensation Discussion and Analysis - Offer Letters and Employment Agreements; Potential Payments Upon Termination, Change in Control or Upon Termination Following Change in Control.”
- (14) Consists of (i) 11,000 shares held of record by Mr. Baker; and (ii) 42,900 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018.
- (15) Consists of (i) 41,300 shares held of record by Mr. Burlingame; and (ii) 121,855 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018.
- (16) Consists of (i) 7,483 shares held of record by Mr. Cavanaugh; and (ii) 53,500 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018 and (ii) 1,567 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018.
- (17) Consists of (i) 20,150 shares held of record by Mr. Payne; and (ii) 43,900 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018.
- (18) Consists of (i) 7,350 shares held of record by Ms. Salen; and (ii) 35,500 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018.
- (19) Consists of (i) 4,785,061 shares held of record by our current directors and executive officers and their affiliates; (ii) 2,113,530 shares issuable pursuant to stock options exercisable within 60 days of February 28, 2018; and (iii) 56,633 shares issuable upon the settlement of RSUs releasable within 60 days of February 28, 2018.

EXECUTIVE OFFICERS

Biographical data as of February 28, 2018 for each of our current executive officers is set forth below, excluding Mr. Miller’s biography, which is included under the heading “Proposal 1 — Election of Directors” above.

Executive Officers

Brian L. Swartz, age 45, has served as our Chief Financial Officer since May 2016. Prior to joining us, Mr. Swartz served as Chief Financial Officer at zulily, one of the largest e-commerce companies in the United States from June 2015 to May 2016. Prior to joining zulily, Mr. Swartz served most recently as Chief Financial Officer at Apollo Education Group, a global private-sector education company, from December 2006 to May 2015. Before his role with Apollo, Mr. Swartz was VP and Corporate Controller at Eagle Picher, an industrial manufacturing and technology company. He began his career in public accounting and earned his C.P.A. (inactive). Mr. Swartz holds a B.A. in Business Administration with an Accounting major from the University of Arizona.

Adrianna Burrows, age 42, has served as our Chief Marketing Officer since March 2018. Prior to this role, Ms. Burrows served as Chief Marketing Officer of Stack Exchange Inc., a provider of a network of question-and-answer websites, from January 2016 to February 2018. From November 2015 to December 2015, Ms. Burrows served as a paid executive marketing consultant for Finer GTM LLC. From July 2010 to October 2015, Ms. Burrows served in various marketing positions at Microsoft Corporation, a software company, including as a General Manager and Partner. Ms. Burrows holds a B.A. in Communications from the University of Washington.

Mark Goldin, age 56, has served as our Chief Technology Officer since June 2010. Prior to joining us, Mr. Goldin served as Chief Technology Officer at DestinationRx, Inc., a healthcare data management company, from September 2009 to June 2010. From August 2005 to September 2008, Mr. Goldin was Chief Operations and Technology Officer at Green Dot Corporation, a financial services company. Prior to Green Dot, from December 1992 to August 2005, Mr. Goldin served as Senior Vice President and Chief Technology Officer at Thomson Elite, a provider of technology solutions for professional services firms and currently part of Thomson Reuters Corporation.

Jeffrey Lautenbach, age 49, has served as our President, Global Field Operations since January 2018. Prior to this role, Mr. Lautenbach served as President Worldwide Field Operations of Jive Software, Inc., a provider of business communication and collaboration solutions, from August 2015 to July 2017. From February 2014 to August 2015, Mr. Lautenbach was Chief Revenue Officer at HC1, Inc., a provider of cloud-based healthcare relationship management solutions. From December 2012 to February 2014, Mr. Lautenbach served as President CRM of SAP SE, a software company. From January 2011 to December 2012, Mr. Lautenbach held the position of SVP Enterprise Commercial Sales Americas at salesforce.com, inc., a provider of cloud-based CRM solutions. Prior to salesforce, Mr. Lautenbach served in a variety of roles over 19 years at IBM, most recently managing more than 1,300 employees while serving as Vice President, West IMT for the Software Group. Mr. Lautenbach holds a B.A. in Marketing from Xavier University and an M.B.A. from the University of Illinois.

Adam Weiss, age 39, has served as our Chief Administrative Officer and General Counsel since February 2018, and is responsible for our legal, human resource, administration, and privacy functions worldwide. Prior to this role, Mr. Weiss held the positions of Senior Vice President, Administration and General Counsel from April 2016 to January 2018, Vice President, Business Affairs and General Counsel from April 2013 to March 2016, and General Counsel from May 2006 to March 2013. Before joining us, from 2003 to April 2006, Mr. Weiss was an associate with the law firm of Lurie, Zepeda, Schmalz & Hogan. Mr. Weiss holds a B.A. in Economics and Political Science from Stanford University and a J.D. from UCLA School of Law.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis provides information about the material components of our compensation program for our named executive officers, or NEOs, and is intended to provide a better understanding of our compensation practices and decisions that affected the compensation payable in 2017 to our NEOs.

Our NEOs for 2017 were Adam Miller, our President and Chief Executive Officer; Brian Swartz, our Chief Financial Officer; David Carter, who retired as our Chief Sales Officer in March 2018; Vincent Belliveau, our Executive Vice President and General Manager of EMEA; Mark Goldin, our Chief Technology Officer; and Kirsten Helvey, who retired as our Chief Operating Officer in March 2018.

EXECUTIVE SUMMARY

BUSINESS AND COMPENSATION HIGHLIGHTS

Key Operational Highlights

Strategic Advances and Business Accomplishments

In 2017, we continued to be a leading global provider of learning and human capital management software delivered as Software-as-a-Service (“SaaS”). We are one of the world’s largest cloud computing companies with approximately 35.3 million users across 3,250 clients using the system in 192 countries and 43 different languages. We help organizations around the globe recruit, train and manage their employees. Our human capital management platform combines the world’s leading unified talent management solutions with state-of-the-art analytics and HR

administration solutions to enable organizations to manage the entire employee lifecycle. Our focus on continuous learning and development helps organizations to empower employees to realize their potential and drive success. Key highlights of our strategic advances and business accomplishments throughout the year include:

Announcing and beginning to implement our strategic plan with the objective of better positioning us for long-term growth and increasing shareholder value. In connection with the plan, we are (i) sharpening our focus on recurring revenue growth; (ii) driving operating margin and free cash flow improvement; (iii) developing new recurring revenue streams, including e-learning content subscriptions; (iv) bolstering our leadership team; and (v) strengthening our governance to help us best execute on this strategic transformation;

• Maintaining average annual dollar retention rate of approximately 95% since 2002; and

• Continuing to increase our product penetration with clients across all segments and geographies.

Our focus remains on empowering people, organizations and communities with our comprehensive talent management solutions.

Financial Performance

We finished another year of good execution as shown by revenue growth and by delivering our second year of non-GAAP profitability. We achieved the following financial results in fiscal year 2017:

• Full year revenue of \$482.0 million, up 13.9% year-over-year or 15.3% year-over-year on a constant currency basis;

• Full year billings of \$525.8 million, up 16.0% year-over-year or 11.5% year-over-year on a constant currency basis;

• Full year net loss of \$(61.3) million and full year non-GAAP net income of \$25.2 million; and

• Full year unlevered free cash flow of \$43.7 million.

Please see the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K filed with the SEC on February 27, 2018, for a more detailed discussion of our fiscal 2017 financial results and, beginning on page 51 of that Annual Report on Form 10-K, a discussion regarding our key metrics.

Key Compensation Highlights

The success of our business is driven by rapidly changing technology and the services we can provide to our customers. In order to stay competitive in our industry, our compensation packages are designed to attract, retain and incentivize our executive team and to align our compensation practices with the creation of value for our stockholders. We believe our compensation programs are effectively designed to reward our executives when our business performs well, which in turn strengthens the ties between our performance and stockholder value.

Below, we provide a summary of the key compensation related actions and outcomes from 2017, which we believe in the aggregate demonstrates our strong commitment to pay for performance.

• No increases to target cash compensation levels: For fiscal 2017, there were no increases in base salaries nor target bonus percentages for any NEOs.

• Modified annual incentive plan to better align with key value drivers of business: Substantially retained all three performance metrics from the 2016 Executive Compensation Plan and added billings as a fourth performance metric:

2017		2016	
Performance Metric	Weighting	Performance Metric	Weighting
Revenue	35%	Revenue	65%
Billings	30%	Free cash flow	10%
Free cash flow	10%	Non-GAAP net income	25%
Non-GAAP net operating income	25%		

Overview of Our Pay and Performance Alignment

Emphasis on At Risk Compensation

The compensation of our executive officers is weighted towards variable, performance-based incentive awards. In 2017, 91% of total target direct compensation for the CEO consisted of variable compensation (in the form of both short-term cash incentives and long-term equity incentives connected to either financial performance or variations in the Company’s share price). For the other NEOs in aggregate, 87% of total target direct compensation consisted of variable pay.

Realizable Value Aligned with Stockholder Experience

Realizable pay provides another perspective to help demonstrate the alignment of our NEOs' financial interests with that of our stockholders. Given that shifts in our stock price can cause stock-based awards to have significantly different values over time than their original value on their date of grant, the Compensation Committee considers it important to focus on the amount of pay that is realizable by our NEOs at any point in time. This view of pay and performance helps our Compensation Committee to ensure our executive pay program appropriately aligns with the experiences of our stockholders over time.

As highlighted above, our compensation program delivered more than 85% of target compensation to our NEOs in the form of incentives that are tied to our future financial and stock performance (relative and absolute). As a result, realizable compensation, defined as the value of base salary paid, actual bonuses earned, options and restricted stock units valued at the Company's share price as of December 31, 2017, and outstanding performance shares based on our most current projected financial performance level for the performance periods ending 2018 and 2019, will vary from the compensation targeted by the Compensation Committee. Over the three-year period from January 1, 2015 through December 31, 2017 realizable compensation was 49% of target total direct compensation for the CEO and 68% of target total pay, on average, for Messrs. Belliveau, Carter, Goldin and Ms. Helvey (NEOs with three full years of compensation data). The difference in targeted compensation and realizable compensation over the 3-year period can be attributed to a combination of factors, most notably:

- Between 2015 and 2017, more than 85% of our targeted compensation was at risk; therefore, realizable pay will more closely align with our actual financial performance and stock price over that same period.

- Performance-based restricted stock units granted in 2016 and 2017 are not expected to meet the minimum performance criteria and as a result are valued at zero in the expected realizable compensation metrics.

- Our executive cash incentive plans have, on average, paid out at 87% of target.

- Option grants made during the 2015 fiscal year were out of the money based on stock price as of December 31, 2017.

Executive Compensation Governance Practices

We continued our commitment to strong corporate governance practices that ensure our executive compensation program aligns with stockholder interests.

Compensation Decision Making Process and Governance Framework

Our Pay Philosophy and Governance Framework

Our compensation philosophy is to provide programs that attract, retain and motivate key employees who are critical to our long-term success. We strive to provide compensation packages to our executives that are competitive, reward the achievement of our business objectives, and align executive and stockholder interests by enabling our executives to acquire equity ownership in our business.

Peer Group and Its Use

In determining the appropriate level and form of compensation for 2017, our Compensation Committee reviewed publicly available market data relating to the cash and equity compensation of a peer group of publicly-held software companies of similar size and business focus. Our Compensation Committee reviewed and considered the data presented by Semler Brossy, which served as the Compensation Committee's independent compensation consultant in 2017, but did not engage in any benchmarking or targeting of any specific levels of pay.

Our Compensation Committee reviewed the peer group in early 2017 for evaluating 2017 compensation decisions.

The following companies comprised the peer group for compensation purposes in 2017:

Aspen Technology, Inc.	Medidata Solutions, Inc.
athenahealth, Inc.	Paycom Software, Inc.
Benefitfocus, Inc.	RealPage, Inc.
Callidus Software Inc.	Splunk Inc.
FireEye, Inc.	Tableau Software, Inc.
Guidewire Software Inc.	The Ultimate Software Group, Inc.
LogMeIn, Inc.	Zendesk Inc.

The 2017 peer group was determined after taking into account, as applicable, the following criteria:

- Industry and business model comparability: SaaS and other application systems and/or systems software companies;
- Size and scale comparability: Companies within a general revenue range of .4 - 2.5 times our revenue and market cap range of .33 - 3 times our market cap; and
- Growth dynamics: Preference for companies with revenue growth near 15% or more year-over-year, designed to ensure that growth trajectories and expected future scales or peers are comparable to us.

Quantitative screens were primarily used as guides to inform our decision process on reviewing current or potential peers. Companies not explicitly meeting the quantitative screening criteria were additionally reviewed from a business fit perspective to ensure that they would be an appropriate company within the peer group.

As compared to our peer group for 2016, Demandware, Inc., Marketo Inc., NetSuite Inc., SPS Commerce, Inc. and Veeva Systems were removed due to size or as they are no longer public companies. LogMeIn, Inc., Medidata Solutions, Inc. and Paycom Software, Inc. were added to the 2017 peer group after taking into account the factors outlined above.

Under the direction of our Compensation Committee, Semler Brossy provided competitive market data to review our compensation programs, identify trends in executive cash and equity compensation and make recommendations as to appropriate levels of compensation for 2017. While Semler Brossy's analysis and recommendations were a strong factor in determining 2017 compensation levels, our Compensation Committee used its discretion in setting appropriate compensation levels and, in some cases, selected compensation levels that were different from those recommended by Semler Brossy.

Role of Compensation Committee

Our Compensation Committee is composed of the following individuals: R. C. Mark Baker, Harold W. Burlingame and Dean Carter. Our Compensation Committee operates under a written charter that establishes the duties and authority of our Compensation Committee. Our Compensation Committee reviews the terms of its charter annually, and its charter was most recently updated in April 2013. The fundamental responsibilities of our Compensation Committee include the following:

- Providing oversight of our executive compensation policies, plans and benefit programs;

Assisting our board of directors in discharging its responsibilities relating to (i) oversight of the compensation of our Chief Executive Officer and other key employees including officers reporting under Section 16 of the Securities Exchange Act of 1934, as amended, (ii) approving and evaluating our executive officer compensation plans, policies and programs and (iii) evaluating and approving director compensation;

Assisting our board of directors in administering our equity compensation plans for our employees, directors and other service providers; and

Overseeing the management of risks associated with the Company's compensation policies and practices.

Role of Independent Compensation Consultant

Our Compensation Committee has the authority to engage its own advisors to assist it in carrying out its responsibilities and engaged Semler Brossy to serve as its independent advisor with respect to its compensation programs, including the reasonableness of cash compensation and long-term incentive grants for NEOs and other senior executives, advising on the market compensation environment, appropriate peer companies, compensation trends, and advising non-employee director compensation levels and program design. Semler Brossy reported directly to our Compensation Committee and only interacted with management as necessary. Semler Brossy did not perform work for us other than pursuant to its engagement by our Compensation Committee. Semler Brossy's fees were paid by us. In April 2017, the Compensation Committee assessed the independence of Semler Brossy and concluded that its work had not raised any conflict of interest.

Role of Management

Members of our management team attend our Compensation Committee meetings when invited. At the outset of the 2017 annual compensation decision process, our CEO reviewed the compensation of our executive management team (including the NEOs other than himself) and made recommendations to the members of our Compensation Committee with respect to base salary, bonus and commission targets for the executives (but not for his own compensation). Our Compensation Committee retains the authority to accept or reject the CEO's compensation recommendations for each and all executive officers, and, where it deems appropriate, make adjustments to the CEO's recommendations when determining appropriate compensation levels. All decisions regarding the CEO's compensation for 2017 were reviewed and approved by our Compensation Committee outside of his presence.

Say-on-Pay Vote

At our annual meeting of stockholders in June 2015, we held a non-binding advisory stockholder vote on the compensation of our NEOs, commonly referred to as a say-on-pay vote. Approximately 32.1% of stockholder votes were cast in favor of our 2015 say-on-pay proposal. In response to this vote and direct feedback from stockholders, the Compensation Committee undertook several actions in 2015 and 2016, which are described in more detail in this document:

- Made no equity grant to our CEO in fiscal year 2015;
- Implemented share ownership guidelines for executives in 2016;
- Introduced a formal clawback policy in 2016;
- Committed to formal ongoing stockholder engagement;
- Engaged new independent compensation consultant starting in 2016; and
- Enhanced CD&A disclosure.

We believe that these changes, together with our existing compensation practices, have addressed the stockholder concerns that have been shared with us, and demonstrate our commitment to a compensation program designed to help drive the Company's long-term value creation.

We currently hold say-on-pay votes every three years, as approved by our stockholders in a non-binding advisory vote at our annual meeting of stockholders in June 2015. Accordingly, this year our stockholders are being asked to approve the compensation of our named executive officers on a non-binding, advisory basis, as described in greater detail under Proposal 3 herein. This year, we will also hold a non-binding advisory vote to approve the frequency of future non-binding say-on-pay votes. We urge stockholders to vote to hold advisory votes to approve the compensation of our named executive officers every year.

Components of Our NEO Compensation

The compensation program for our NEOs consists of:

• Base salary;

• Short-term incentives, specifically sales commissions and milestone bonuses for commissioned NEOs (Messrs. Carter and Belliveau) and annual bonuses for non-commissioned NEOs (Messrs. Miller, Swartz and Goldin and Ms. Helvey);

• Long-term incentives (equity awards);

• Broad-based employee benefits; and

• Severance and change of control benefits.

We believe the combination of these elements provides a compensation package that attracts and retains qualified individuals, links individual performance to the performance of our business, focuses the NEOs' efforts on the achievement of both our short-term and long-term objectives as a company, and aligns the NEOs' interests with those of our stockholders. Our Compensation Committee determines the appropriate use and weight of each component of NEO compensation based on its views of the relative importance of each component in achieving our overall objectives and position-specific objectives relevant to each NEO.

Base Salaries

We provide a base salary to our NEOs to compensate them for services rendered on a day-to-day basis. The base salaries of our NEOs are reviewed on an annual basis. The following table provides the base salaries of our NEOs for 2016 and 2017:

Named Executive Officer	2016 Base Salary	2017 Base Salary	% Increase	
Adam Miller	\$500,000	\$500,000	0.0	%
Brian Swartz	\$425,000	\$425,000	0.0	%
David Carter	\$290,000	\$290,000	0.0	%
Vincent Belliveau	\$305,465 ⁽¹⁾	\$305,465 ⁽¹⁾	0.0	%
Mark Goldin	\$350,000	\$350,000	0.0	%
Kirsten Helvey	\$350,000	\$350,000	0.0	%

(1) This amount reflects a base salary of €255,000, which has been converted into U.S. Dollars at a rate of \$1.1979 Dollars per Euro, the exchange rate in effect on January 1, 2018.

In reviewing the salaries of our executives, our Compensation Committee reviewed and considered various market data presented by Semler Brossy as well as the factors described above under the heading “— Compensation Discussion and Analysis — Compensation Decision Process.” We did not engage in any benchmarking or targeting of any specific levels of pay when determining base salary levels. In connection with its review of 2017 base salaries, our Compensation Committee determined that no adjustment of any NEO's base salary was necessary as the NEO's current base salary was appropriate relative to market data and each executive's experience, as well as past, current and anticipated contributions to our success.

Short-Term Incentives (Cash Bonuses and Sales Commissions)

Our short-term incentive program seeks to balance our NEOs' focus on our company goals as well as reward their individual performance through the use of an executive compensation plan and separate sales commission plans, as appropriate for each NEO's position. Each of Messrs. Miller, Swartz and Goldin and Ms. Helvey participated in an executive compensation plan under which bonuses were eligible to be earned upon our achievement of specified performance goals. Considering their respective sales positions within our organization, Mr. Carter and Mr. Belliveau participated in individualized sales commission plans that are similar to the plans used for all of our sales employees, as described below. Our executive compensation plan and our executive sales commission plans are treated as “non-equity incentive plan compensation” for purposes of the Summary Compensation Table and Grants of Plan-Based

Awards Table below.

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2017 Executive Compensation Plan

For 2017, our Compensation Committee established an executive compensation plan for Messrs. Miller, Swartz and Goldin and Ms. Helvey (the “2017 Executive Compensation Plan”). Under the terms of the 2017 Executive Compensation Plan, each NEO (other than Messrs. Carter and Belliveau) was entitled to receive a bonus that would vary in size depending on our success in meeting certain performance thresholds and targets with respect to a number of different performance metrics: revenue, billings, free cash flow and non-GAAP net operating income. The 2017 Executive Compensation Plan also directs the Compensation Committee to review achievement under the plan if the U.S. dollar to British pound and U.S. dollar to Euro currency exchange rates fluctuate by more than two-and-one-half percent during fiscal 2017, and make appropriate adjustments in light of said currency fluctuations. These metrics are used because they directly measure our ability to execute on our strategic imperatives of expanding market share while achieving appropriate levels of profitability. We believe successful performance on these metrics will drive sustainable long-term stockholder value creation. Under this plan, no bonus payout for a particular performance metric would be earned unless the performance threshold for that metric was met, and bonus payouts would be calculated linearly for achievement between the performance thresholds and targets.

The following table shows the performance metrics and weighting established by our Compensation Committee for the 2017 Executive Compensation Plan:

Performance Metric	Weighting(1)
Revenue	35 %
Billings (2)	30 %
Free cash flow(3)	10 %
Non-GAAP net operating income(4)	25 %

(1) The amount payable with respect to each metric may be greater or less than the assigned weighting depending on the extent to which our performance exceeded or fell short of the applicable target.

(2) Billings is generally defined as revenue plus the change in total deferred revenue.

(3) Free cash flow is generally defined as operating cash flow minus capital expenditures and capitalized software.

Non-GAAP net operating income is loss from operations adjusted to exclude expenses related to stock-based compensation, amortization of intangible assets, accretion of debt discount and amortization of debt issuance costs and unrealized fair value adjustment on strategic investment.

The following tables show the target, minimum and maximum levels of performance and the bonus percentages corresponding with such levels of achievement for each NEO established by our Compensation Committee in March 2017 for the 2017 Executive Compensation Plan:

	Minimum(1)	Target	Maximum
Revenue	\$475,500,000	\$490,800,000	\$502,800,000
Billings	\$501,300,000	\$533,900,000	\$558,800,000
Free cash flow	\$18,100,000	\$42,200,000	\$50,000,000
Non-GAAP net operating income	\$20,500,000	\$27,800,000	\$35,400,000

(1) No bonus payment for the applicable performance metric will be eligible to be earned unless the performance threshold for that performance metric is met.

Bonus Percentages for NEOs

The table below shows each NEO’s (other than Mr. Carter and Mr. Belliveau) bonus opportunity as a percentage of their respective base salaries that corresponds with the achievement of the performance targets above. For example, the 25% minimum in the “Revenue” column below represents that upon achievement of minimum performance with respect to the revenue metric, the individual’s bonus will be calculated based on 25% achievement of that particular performance metric.

Revenue	Billings
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	Non-GAAP Free Cash Flow						Non-GAAP net income (loss)					
	Minimum	Target	Maximum	Minimum	Target	Maximum	Minimum	Target	Maximum	Minimum	Target	Maximum
Adam Miller	25 %	100 %	200 %	25 %	100 %	200 %	25 %	100 %	200 %	25 %	100 %	200 %
Brian Swartz	18 %	70 %	140 %	18 %	70 %	140 %	18 %	70 %	140 %	18 %	70 %	140 %
Mark Goldin	18 %	70 %	140 %	18 %	70 %	140 %	18 %	70 %	140 %	18 %	70 %	140 %
Kirsten Helvey	18 %	70 %	140 %	18 %	70 %	140 %	18 %	70 %	140 %	18 %	70 %	140 %

To increase focus on operating results and to align the NEOs' interests with those of our stockholders, our Compensation Committee determined that these performance metrics were appropriate measurements of our performance, as revenue and billings measures our growth rates, free cash flow measures the cash profitability and margin potential of our business, and non-GAAP net operating income measures our execution on expenditures relative to our revenue growth.

The following table shows the minimum, target, and maximum bonus amounts under the 2017 Executive Compensation Plan for each of Messrs. Miller, Swartz and Goldin and Ms. Helvey. To the extent that our achievement was greater or less than the specified targets, the bonus amounts payable to each individual would be increased or decreased, respectively, although our Compensation Committee retained discretion to adjust bonus payments in its sole discretion. Our Compensation Committee determined these target bonus amounts based on the reasons below and the compensation factors described above under the heading "— Compensation Discussion and Analysis — Compensation Decision Process."

	Minimum Bonus Amount(1)		Target Bonus Amount(2)		Maximum Bonus Amount(3)	
	\$	% of Base Salary	\$	% of Base Salary	\$	% of Base Salary
Adam Miller	12,500	2.5	500,000	100	1,000,000	200
Brian Swartz	7,438	1.8	297,500	70	595,000	140
Mark Goldin	6,125	1.8	245,000	70	490,000	140
Kirsten Helvey	6,125	1.8	245,000	70	490,000	140

Represents the minimum bonus amount payable if we met only our performance threshold for non-GAAP free cash (1) flow, the metric with the lowest weighting. No bonus was payable if we failed to meet the performance threshold for at least one metric.

(2) Represents the bonus amount payable if we achieved our full performance target with respect to each performance metric.

(3) Represents the maximum bonus amount payable in aggregate, if we achieved the maximum target with respect to each performance metric.

Each NEO's 2017 target bonus amount as a percentage of base salary remained the same as that NEO's 2016 target bonus amount. Our Compensation Committee determined that these bonus targets were appropriate based on its review of the compensation practices of our peer group and that they enabled us to appropriately proportion our NEOs' total cash compensation with respect to performance-based compensation. For 2017, the maximum bonus opportunity for executives was increased from 175% of target to 200% of target to be consistent with the bonus programs of more than half of the compensation peer group.

In early 2018, our Compensation Committee reviewed the 2017 performance metrics to determine the level of achievement relative to each performance target and threshold amount. The 2017 achievement levels for the performance targets were as follows:

	2017 Actual Performance	2017 Constant Currency Performance(1)	Effect on Calculation of Bonuses
Revenue	\$ 481,985,000	\$ 487,850,000	Bonus calculated linearly for achievement between the minimum and target levels
Billings	\$ 525,816,000	\$ 505,339,000	Bonus calculated linearly for achievement between the minimum and target levels
Free cash flow	\$ 39,839,000	n/a	Bonus calculated linearly for achievement between the minimum and target levels

Non-GAAP operating income(2)	\$ 26,873,000	n/a	Bonus calculated linearly for achievement between the target and maximum levels
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(1) The 2017 Executive Compensation Plan directs the Compensation Committee to automatically adjust performance for currency exchange rate fluctuations.

The 2017 Executive Compensation Plan allows for an adjustment to remove the impact of expenses associated with (2) this plan. The achievement level for this performance target was calculated as \$27.9 million for 2017, after this adjustment.

Accordingly, overall achievement relative to targets was approximately 75%. Individual payments under the 2017 Executive Compensation Plan were as follows:

Name	2017 Bonus Amount
Adam Miller	\$ 373,676
Brian Swartz	\$ 222,338
Mark Goldin	\$ 183,101
Kirsten Helvey	\$ 183,101
Sales Commission Plan	

Because much of Mr. Belliveau's and Mr. Carter's responsibilities are focused on sales of our solutions, our Compensation Committee determined that it would be more appropriate for Mr. Belliveau and Mr. Carter to participate in a sales commission plan with terms that correspond to the results achieved by their respective teams rather than in the 2017 Executive Compensation Plan described above. Mr. Belliveau and Mr. Carter therefore earned commissions based on the sales of their respective direct sales teams, with Mr. Belliveau's commissions based on sales in Europe, the Middle East and Africa, and Mr. Carter's commissions based on total direct sales in the United States, North America and Latin America. The commission targets were determined by our Compensation Committee based in part on the recommendations of our CEO, which took into account the compensation factors described above under the heading "Compensation Discussion and Analysis — Compensation Decision Process." Our Compensation Committee designed Mr. Belliveau's and Mr. Carter's commission structure both to reward them for their past success and to support our retention efforts.

During 2017, Mr. Belliveau and Mr. Carter were eligible to receive commissions based on total sales in their respective sales territories. The rate at which commissions are earned by each sales executive is highest in the first year of each client agreement and decreases each year thereafter and depends on whether the client agreement is a new agreement or a renewal. For 2017, our Compensation Committee established a sales quota for each of the sales executives. Mr. Belliveau's total quota for 2017 was \$67,500,000 in first-year revenue from new sales in assigned territories, and Mr. Carter's quota for 2017 was \$147,500,000 in first-year revenue from new sales in assigned territories. To the extent that a sales executive exceeded his quota for revenue in 2017, such sales executive's commission rate was increased with respect to revenue invoiced and received by us in excess of the quota. For 2018, we changed our sales commission plans to focus exclusively on annual recurring revenue.

In addition, each sales executive was also eligible for a bonus if he met certain milestone sales targets by the dates specified in each executive's commission plan. If Mr. Belliveau achieved specified milestones by specified dates, he would be eligible to receive a bonus of \$23,958 upon completion of each milestone (based on a \$1.1979 U.S. Dollar to Euro exchange rate as of January 1, 2018). If Mr. Carter achieved all specified milestones by specified dates, he would be eligible to receive a total bonus of \$20,000 upon completion of all milestones.

For 2017, the following table shows the targets and amounts earned by Mr. Belliveau and Mr. Carter under his 2017 sales commission plan:

	Target 2017 Commission	Target 2017 Bonus	2017 Commission Earned(4)	Target 2017 Bonus Earned(6)
David Carter	\$ 377,600	(1)\$ 20,000	\$ 345,419	\$ —
Vincent Belliveau	\$ 337,500	(2)\$ 23,958	(3)\$ 304,540	(5)\$ 5,595 (5)

(1) This amount represents the total performance-based commissions that would have been earned under the commission plan if (i) Mr. Carter had achieved the sales quota established under his commission plan and (ii) the percentage of the sales quota attributable to software revenue and service revenue, respectively, had been consistent with the Company's projections.

(2) This amount represents the total performance-based commissions that would have been earned under the commission plan if (i) Mr. Belliveau had achieved the sales quota established under his commission plan and (ii)

the percentage of the sales quota attributable to software revenue and service revenue, respectively, had been consistent with the Company's projections.

- (3) Mr. Belliveau's target 2017 bonus was €20,000. Amounts have been converted into U.S. Dollars at a rate of \$1.1979 Dollars per Euro, the exchange rate in effect on January 1, 2018.

- This amount represents the total performance-based commissions earned by Mr. Belliveau and Mr. Carter under the 2017 commission plan, including incremental revenue from renewals. Each executive also earned additional commissions for second-year revenue and third-year revenue received by us in 2017 with respect to client
- (4) agreements entered into in prior years under sales commission plans established in such years for each such executive, which commission amounts are not reflected in this amount. For the commissions earned in 2017 under the 2017 sales commission plan and under plans established for prior years, see the non-equity incentive plan compensation column of the Summary Compensation Table below.
- (5) Amount represents the sum of payments made to Mr. Belliveau converted from Euros into U.S. Dollars at the exchange rates in effect when the payments were made.
- (6) Represents milestone bonuses paid upon the achievement of certain milestone sales targets.

Long-Term Incentives

We grant equity awards to motivate and reward our NEOs for achieving long-term performance goals as reflected in the value of our common stock, which we believe aligns the interests of our NEOs with those of our stockholders. Such awards typically have been granted once per year. The Compensation Committee typically grants a combination of performance-based restricted stock units and time-based restricted stock units to further incentivize our executives to drive long-term growth and promote alignment of our stockholders' interests with the financial interests of our NEOs.

In determining 2017 equity incentive awards for our NEOs, our Compensation Committee considered a number of factors, including the executive's position with us and his or her total compensation package as well as the executive's contribution to the success of our financial performance and the equity compensation practices of our peer group. Our Compensation Committee granted equity awards to reward both the achievement of long-term goals and to provide a powerful retention tool. Performance-based restricted stock units increase stockholder value and reward achievement of our long-term strategic goals since the value of these awards is subject to achievement of those goals, while time-based restricted stock units provide individuals with immediate retention value because they have no purchase price, but are subject to service-based vesting.

2017 Grants

On March 5, 2017, we granted Messrs. Miller, Swartz, Carter, Belliveau and Goldin and Ms. Helvey awards of restricted stock units and performance-based restricted stock units ("PSUs"). For Mr. Miller, we targeted an equity mix of 40% RSUs and 60% PSUs, and for Messrs. Swartz, Carter, Belliveau and Goldin and Ms. Helvey, we targeted an equity mix of 67% RSUs and 33% PSUs.

The restricted stock units will be fully vested over a four-year period with 1/4th of the restricted stock units scheduled to vest on each of the first four anniversaries of the grant date, in all cases subject to the individual continuing to provide services to us through each such date.

The PSUs will measure performance during the three-year period from January 1, 2017 through December 31, 2019, and will become fully vested based on actual performance over that period. Performance will be based on three-year average revenue growth and three-year average free cash flow margin. The Compensation Committee granted these incentive awards to our NEOs to provide an additional, long-term incentive and retention tool and to align our compensation practices with the creation of value for our stockholders by tying vesting of the PSUs to the Company's financial performance growth targets measured over a three-year period. The Compensation Committee believes that strong combined performance on these metrics is vital for the Company's long-term success.

Performance-based Restricted Stock Units

Name	Restricted Stock Units (#)	Target (#)	Maximum (#)
Adam Miller	45,325	67,990	203,970
Brian Swartz	42,140	21,070	63,210
David Carter	27,830	13,915	41,745

Vincent Belliveau	27,830	13,915	41,745
Mark Goldin	27,830	13,915	41,745
Kirsten Helvey	27,830	13,915	41,745

Fiscal 2018 Long-Term Incentive Program Modifications

In November 2017, we announced a strategic plan with the objective of better positioning us for long-term growth and increasing stockholder value. In connection with the plan, we are (i) sharpening our focus on recurring revenue growth; (ii) driving operating margin and free cash flow improvement; (iii) developing new recurring revenue streams, including e-learning content subscriptions; (iv) bolstering the leadership team; and (v) strengthening governance to help best execute on this strategic transformation.

To ensure alignment between NEOs and our focus on combined subscription revenue growth and unlevered free cash flow margin to reach the “Rule of 40” by 2020, the Compensation Committee, after reviewing a number of alternatives, decided to modify the long-term incentive program for 2018 for certain NEOs, excluding Adam Miller. Key features of the new program include:

One-Time Award: Grantees under this program received a one-time equity award in March 2018 intended to cover expected grant levels over a three-year period. In exchange, the Compensation Committee does not plan to grant any additional equity awards to program participants until 2021.

Extended Vesting Period: The award vests over five years, instead of over a more typical three or four-year period.

Increased Performance Orientation: The award is an equity mix of 50% PSUs and 50% RSUs. This mix represents a performance-oriented change from the current mix of 33% PSUs and 67% RSUs.

Aligned to the “Rule of 40”: PSUs are based on a combination of subscription revenue growth and unlevered free cash flow margin, with target performance set at the “Rule of 40.”

Sustained Performance Over Multiple Years: The PSU portion of the 2018 equity award (50% of the value) has been divided up into three separate tranches, measured in equal one-third increments in 2020, 2021, and 2022. To earn the PSUs at target, we must reach the “Rule of 40” by 2020 and sustain that level of performance through 2022.

Given Mr. Miller’s significant ownership stake, the Compensation Committee determined that his participation in the one-time award was neither necessary nor appropriate. Therefore, Mr. Miller’s long-term incentive structure will not change materially for fiscal 2018. Mr. Miller will continue to receive annual equity grants, however, to ensure alignment both with our strategy and other NEOs. Mr. Miller’s annual PSU performance targets will be determined using the same metrics used for the other NEO PSUs, and will vest on a similar schedule to that outlined above.

We believe this new program sufficiently aligns NEOs with our new strategy, our commitment to reach the “Rule of 40” by 2020, and with stockholders’ interests, as a significant amount of NEO current and future pay is at risk.

COMPENSATION GOVERNANCE

Stock Ownership Guidelines

In 2016, we adopted formal stock ownership guidelines for certain employees, including our NEOs. Under our ownership guidelines, our CEO is expected to accumulate and hold a number of shares of the Company’s common stock with a value equal to ten times his annual base salary, and our other NEOs are expected to accumulate and hold a number of shares of the Company’s common stock with a value equal to three times his or her annual base salary. The NEOs are expected to satisfy the ownership guidelines within five years from the adoption of the guidelines (or the individual’s date of hire for individuals hired after the effective date). For the purposes of these guidelines, stock ownership includes shares owned outright by the NEO or his or her immediate family members; shares held in trust, limited partnerships, or similar entities for the benefit of the NEO or his or her immediate family members, but beneficially owned by the NEO; shares held in retirement or deferred compensation accounts for the benefit of the NEO or his or her immediate family members; shares subject to restricted stock units or other full-value awards (“Full-Value Awards”) that have vested, but for which the NEO has elected to defer the settlement of the award to a date beyond the date of vesting; and shares subject to Full-Value Awards that are unvested and for which the only requirement to earn the award is continued service to the Company. In addition, in the event the applicable ownership threshold is not satisfied as of or following the applicable deadline, NEOs are required to hold 50% of net after-tax shares until the applicable guideline has been met. All of our NEOs currently meet their respective ownership requirements under the stock ownership guidelines.

Anti-Hedging and Pledging Policy

Our insider trading policy includes an anti-hedging policy, which prohibits our executive officers and directors from engaging in transactions in publicly-traded options, such as puts and calls, and other derivative securities with respect to the Company's securities unless otherwise permitted by our board of directors. This prohibition extends to any hedging or similar transaction designed to decrease the risks associated with holding Company securities. Stock options, stock appreciation rights, and other securities issued pursuant to Company benefit plans or other compensatory arrangements with the Company are not subject to this prohibition.

Our insider trading policy also includes an anti-pledging policy, which prohibits our executive officers and directors from pledging Company securities as collateral for loans.

Compensation Recovery Policies

In April 2016, we adopted a clawback policy applicable to our executive officers. If a majority of the independent members of our board of directors determines that an officer's misconduct caused us to materially restate all or a portion of our financial statements, our board of directors may require the officer to repay incentive compensation that would not have been payable absent the material restatement. This policy applies to all incentive compensation, excluding equity awards granted prior to the adoption of the policy, based on financial statements filed during the three years prior to the material restatement. Our Compensation Committee intends to revisit our clawback policy after the SEC adopts final rules implementing the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Employment Contracts, Termination of Employment and Change-In-Control Agreements

Our board of directors believes that maintaining a stable and effective management team is essential to our long-term success and achievement of our corporate strategies, and is therefore in the best interests of our stockholders. We have entered into employment agreements or Change of Control Severance Agreements with each of our NEOs that provide for, in certain instances, base salary, bonuses and/or sales commissions, employee benefit plan participation, and severance or other payments upon a qualifying termination of employment or change of control. These agreements provide the NEOs with assurances of specified severance benefits in the event that their employment is terminated and such termination is a qualifying termination. For more detail, see "Offer Letters and Employment Agreements; Potential Payments Upon Termination, Change in Control or Upon Termination Following Change in Control."

We recognize that these severance benefits may be triggered at any time. Nonetheless, we believe that it is imperative to provide these individuals with these benefits to secure their continued dedication to their work, notwithstanding the possibility of a termination by us, and to provide them with additional incentives to continue employment with us. In determining appropriate severance payment and benefit levels for our NEOs, our Compensation Committee and our board of directors relied on a number of factors, including their experience with and understanding of current market practice, relative severance packages within the Company, and current severance arrangements. The level of benefits and triggering events to receive such benefits were chosen to be broadly consistent with our Compensation Committee's and our board of directors' view of prevailing competitive practices. The final severance payment and benefit levels were determined after extensive negotiations with each NEO and were evaluated in terms of the overall compensation packages for each NEO.

We also recognize the possibility that we may in the future undergo a change in control, and that this possibility, and the uncertainty it may cause among our NEOs, may result in their departure or distraction to the detriment of our company and our stockholders. Accordingly, our board of directors and Compensation Committee decided to take appropriate steps to encourage the continued attention, dedication and continuity of certain key executives to their assigned duties without the distraction that may arise from the possibility or occurrence of a change in control. As a result, we have entered into agreements with certain of our NEOs that provide additional benefits in the event of a change in control. For more detail, see "Offer Letters and Employment Agreements; Potential Payments Upon Termination, Change in Control or Upon Termination Following Change in Control."

We consider these severance protections to be an important part of our NEOs' compensation. These arrangements are consistent with our overall compensation objectives because we believe such arrangements are competitive with arrangements offered to executives by companies with whom we compete for executives and are critical to achieve

our business objective of management retention. We believe that this severance protection is competitively necessary to retain our NEOs and is imperative to (i) secure the continued dedication and objectivity of our NEOs, including in circumstances where we may undergo a change of control, and (ii) provide the NEOs with an incentive to continue employment with us and motivate them to maximize our value for the benefit of our stockholders.

Compensation Risk Assessment

In establishing and reviewing our overall compensation program, our Compensation Committee and our board of directors consider whether the compensation program and its various elements encourage or motivate our NEOs or other employees to take excessive risks. We believe that our compensation program and its elements are designed to encourage our employees to act in our long-term best interests and are not reasonably likely to have a material adverse effect on our business. In particular, our Compensation Committee has reviewed the elements of our executive compensation to determine whether any portion of executive compensation encouraged excessive risk taking and concluded:

- our allocation of compensation between cash compensation and long-term equity compensation, combined with our typically 48-month vesting schedule, discourages short-term risk taking;
- our approach of goal setting, setting of targets with payouts at multiple levels of performance, and evaluation of performance results assist in mitigating excessive risk-taking;
- our compensation decisions include subjective considerations, which restrain the influence of formulae or objective factors on excessive risk taking; and
- our business does not face the same level of risks associated with compensation for employees at financial services (traders and instruments with a high degree of risk).

Benefits and Tax Considerations

Broad-Based Employee Benefits

Our compensation program for our NEOs also includes employee benefits that are generally available to our other employees. These benefits include medical, dental, vision, long-term disability and life insurance benefits, as well as flexible spending accounts. We also periodically provide meals on premise to employees in our offices. Our NEOs receive these benefits on the same basis as our other full-time U.S. employees. Offering these benefits serves to attract and retain employees, including our NEOs. We anticipate that we will periodically review our employee benefits programs in order to ensure that they continue to serve these purposes and remain competitive.

We have established a tax-qualified Section 401(k) retirement savings plan for our employees generally, subject to standard eligibility requirements. Under this plan, participants may elect to make pre-tax contributions to the plan of up to a certain portion of their current compensation, not to exceed the applicable statutory income tax limitation. We provide for a match of employees' contributions in an amount equal to 50% of an employee's contributions up to \$2,400 per year. Matching amounts vest over four years, beginning at the employee's employment start date. Accordingly, all matching amounts will have fully vested on the fourth anniversary of the start date, regardless of when the matching amounts were contributed. The plan currently qualifies under Section 401(a) of the Internal Revenue Code, such that contributions to the plan, and income earned on those contributions, are not taxable to participants until withdrawn from the plan.

We have also established the 2010 Employee Stock Purchase Plan, or ESPP, which our board of directors has adopted and which our stockholders approved. Our NEOs are eligible to participate in the ESPP on the same basis as our other full-time U.S. employees.

Tax Considerations

Prior to January 1, 2018, based on the limitations imposed by Section 162(m) of Internal Revenue Code, we generally could not deduct compensation paid to our Chief Executive Officer and to certain other highly compensated officers that exceeded \$1,000,000 per person in any fiscal year for federal income tax purposes, unless it is "performance-based," as defined under Section 162(m). As a result of the Tax Cuts and Jobs Act that became law in late 2017, the number of individuals covered by Section 162(m) has been expanded to include the Company's principal financial officer and the exception for performance-based compensation has been eliminated. While mindful of the benefit to us of the full deductibility of compensation, our Compensation Committee has believed historically that it should not be constrained by the requirements of Section 162(m) where those requirements would impair flexibility in compensating the members of our executive team in a manner that can best promote our corporate objectives, which our Compensation Committee believes aligns our executive officers' interests with our stockholders' interests, and thus is in the best interests of our stockholders. While we cannot predict how the Section 162(m) deductibility limit may affect our compensation program in future years, we intend to maintain an approach to executive compensation that

strongly links pay to performance.

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We have not provided our executives or directors with any gross-up or other reimbursement for tax amounts that these individuals might pay pursuant to Section 280G or Section 409A of the Internal Revenue Code. Section 280G and related Internal Revenue Code sections provide that executive officers, directors who hold significant stockholder interests, and certain other service providers, could be subject to significant additional taxes if they receive payments or benefits in connection with a change in control that exceeds certain limits, and also that we or our successor could lose the ability to deduct on our corporate taxes the amounts subject to the additional tax. In addition, Section 409A imposes significant taxes on an executive officer, director or other service provider who receives “deferred compensation” that does not meet the requirements of Section 409A.

Compensation Committee Report

The following report of our Compensation Committee shall not be deemed to be “soliciting material” or to otherwise be considered “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act except to the extent that the Company specifically incorporates it by reference into such filing.

Our Compensation Committee consists of three non-employee directors: Messrs. Baker, Burlingame and Carter, each of whom our board of directors has determined is independent under the applicable listing standards of Nasdaq. Our Compensation Committee has the duties and powers described in its written charter adopted by our board of directors. A copy of our Compensation Committee's charter is available on the Investor Relations page of our website at investors.cornerstoneondemand.com, under “Governance.”

The Compensation Committee has reviewed and discussed the section entitled “Compensation Discussion and Analysis” with management and, based on this review and discussion, the Compensation Committee recommended to our board of directors that the section entitled “Compensation Discussion and Analysis” be included in this proxy statement.

Members of our Compensation Committee

R.C. Mark Baker

Harold W. Burlingame, Chairman

Dean Carter

Summary Compensation Table

The following table summarizes the compensation information for our NEOs for the fiscal years ended December 31, 2017, December 31, 2016, and December 31, 2015.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation	Total (\$)
Adam Miller	2017	500,000	—	4,728,635(9)	—	373,676	(2) —	5,602,311
President and Chief Executive Officer	2016	469,792	—	4,354,242(10)	—	522,500	(3) —	5,346,534
Brian Swartz	2015	425,000	—	—	—	360,751	(4) —	785,751
Chief Financial Officer	2017	425,000	—	2,637,753(9)	—	222,338	(2) —	3,285,091
David J. Carter	2016	283,333(11)	—	3,087,000	734,193	219,661	(11) 143,781	(12) 4,467,968
Former Chief Sales Officer	2017	290,000	—	1,742,019(9)	—	373,160	(5) —	2,405,179
Vincent Belliveau	2016	290,000	—	1,693,746(10)	—	443,500	(6) —	2,427,246
Executive Vice President and General Manager of EMEA(8)	2015	286,818	—	830,960	843,168	550,869	(7) —	2,511,815
Mark Goldin	2017	283,244	—	1,742,019(9)	—	415,811	(5) —	2,441,074
Chief Technology Officer	2016	279,226	—	1,693,746(10)	—	382,201	(6) —	2,355,173
	2015	259,020	—	830,960	843,168	456,799	(7) —	2,389,947
	2017	350,000	—	1,742,019(9)	—	183,101	(2) —	2,275,120
	2016	346,875	—	1,693,746(10)	—	269,500	(3) —	2,310,121
	2015	332,878	—	830,960	843,168	199,049	(4) —	2,206,055

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Kirsten Helvey	2017	350,000	—	1,742,019(9)	—	183,101	(2)	—	2,275,120
Former Chief Operating	2016	346,875	—	1,693,746(10)	—	269,500	(3)	—	2,310,121
Officer	2015	332,878	—	830,960	843,168	199,049	(4)	—	2,206,055

- Reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in the valuation of these awards are set forth herein or in the notes to our consolidated financial statements,
- (1) which are included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 27, 2018. These amounts do not necessarily correspond to the actual value that may be realized by the NEO.
 - (2) The amounts represent the total performance-based bonuses earned for services rendered in 2017 under our 2017 Executive Compensation Plan.
 - (3) The amounts represent the total performance-based bonuses earned for services rendered in 2016 under our 2016 Executive Compensation Plan.
 - (4) The amounts represent the total performance-based bonuses earned for services rendered in 2015 under our 2015 Executive Compensation Plan.
The amount represents (i) the total performance-based commissions earned for subscription revenue and consulting services revenue under our sales commission plans, including subscription and consulting services revenue invoiced and received by us under contracts entered into in 2017 in accordance with the sales executive's 2017 sales
 - (5) commission plan, and subscription revenue invoiced and received by us in 2017 under contracts entered into prior to 2017 in accordance with sales commission plans established for the sales executive in such years, and
(ii) milestone bonuses paid upon the achievement of certain milestone sales targets. For more information, see "— Compensation Discussion and Analysis — Sales Commission Plan."
The amount represents (i) the total performance-based commissions earned for subscription revenue and consulting services revenue under our sales commission plans, including subscription and consulting services revenue invoiced and received by us under contracts entered into in 2016 in accordance with the sales executive's 2016 sales
 - (6) commission plan, and subscription revenue invoiced and received by us in 2016 under contracts entered into prior to 2016 in accordance with sales commission plans established for the sales executive in such years, and
(ii) milestone bonuses paid upon the achievement of certain milestone sales targets. For more information, see "— Compensation Discussion and Analysis — Sales Commission Plan."
The amount represents (i) the total performance-based commissions earned for subscription revenue and consulting services revenue under our sales commission plans, including subscription and consulting services revenue invoiced and received by us under contracts entered into in 2015 in accordance with the sales executive's 2015 sales
 - (7) commission plan, and subscription revenue invoiced and received by us in 2015 under contracts entered into prior to 2015 in accordance with sales commission plans established for the sales executive in such years, and
(ii) milestone bonuses paid upon the achievement of certain milestone sales targets. For more information, see "— Compensation Discussion and Analysis — Sales Commission Plan."
 - (8) Amounts represent the sum of payments made to Mr. Belliveau converted from Euros into U.S. Dollars at the exchange rates in effect when the payments were made.
This amount includes performance-based restricted stock units granted on March 5, 2017, which were valued using the closing share price on the grant date to estimate the fair value of this award. The number of shares of our
 - (9) common stock issuable upon the vesting of these performance-based restricted stock unit awards is based upon us meeting certain revenue and cash flow targets through December 31, 2019. The assumptions used in determining the number of shares to vest under the performance-based restricted stock units are based on the target amounts, which was determined to be the likely outcome at the time the awards were granted.
This amount includes performance-based restricted stock units granted on July 1, 2016, which were valued using the closing share price on the grant date to estimate the fair value of this award. The number of shares of our
 - (10) common stock issuable upon the vesting of these performance-based restricted stock unit awards is based upon us meeting certain revenue and cash flow targets through December 31, 2018. The assumptions used in determining the number of shares to vest under the performance-based restricted stock units are based on the target amounts, which was determined to be the likely outcome at the time the awards were granted.
 - (11) Mr. Swartz joined us in May 2016 with an annual salary of \$425,000. Amounts for 2016 have been pro-rated to reflect approximately eight months of service.
 - (12)

This amount represents expenses paid by the Company to reimburse Mr. Swartz for his relocation and travel related to him joining the Company in May 2016 as well as related tax gross-up payments of \$63,703.

CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are providing disclosure regarding the ratio of the annual total compensation of Mr. Miller, our CEO, to that of our median employee. SEC rules allow us to select a methodology for identifying our median employee in a manner that is most appropriate based on our size, organizational structure and compensation plans, policies and procedures.

In determining our median employee, we chose December 31, 2017 as the determination date, which is the last day of our most recently completed fiscal year. As of that date, we employed 1,891 employees globally. Our median employee was determined based on total compensation (base salary, equity-based compensation reflecting grant date fair value and cash incentive compensation, where applicable), derived from our payroll and stock administration systems for, our entire global employee population (excluding our CEO) for the twelve months ending at December 31, 2017. In determining our median employee, we did not use any of the exemptions permitted under SEC rules, and we did not rely on any material assumptions, adjustments (e.g., cost-of-living adjustments) or estimates (e.g., statistical sampling) to identify our median employee or determine annual total compensation or any elements of annual total compensation for our median employee or our CEO. Amounts paid in foreign currency were converted to United States dollars using the average exchange rates for the twelve month period ending December 31, 2017.

We calculated the median employee's annual total compensation in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K. Based on our calculation for 2017, our CEO's annual total compensation for 2017 was \$5,602,311 and our median employee's annual total compensation for 2017 was \$121,530. Accordingly, we estimated our CEO Pay Ratio for 2017 to be 46:1. This pay ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K.

Fiscal 2017 Grants of Plan-Based Awards

The table below summarizes information concerning all plan-based awards granted to our NEOs during fiscal 2017, which ended on December 31, 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)		All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	Grant Date Fair Value of Stock and Option Awards (\$) (3)
		Threshold (\$)	Target (\$)	Maximum (\$)	Target (#)	Maximum (#)		
Mr. Miller	—	12,500	500,000	1,000,000	—	—	—	—
	3/5/2017	—	—	—	—	—	45,325	1,891,412
	3/5/2017	—	—	—	67,990	203,970	—	2,837,223
Mr. Swartz	—	7,438	297,500	595,000	—	—	—	—
	3/5/2017	—	—	—	—	—	42,140	1,758,502
	3/5/2017	—	—	—	21,070	63,210	—	879,251
Mr. Carter	—	—	397,600(4)	—	—	—	—	—
	3/5/2017	—	—	—	—	—	27,830	1,161,346
	3/5/2017	—	—	—	13,915	41,745	—	580,673
Mr. Belliveau	—	—	361,458(4)(5)	—	—	—	—	—
	3/5/2017	—	—	—	—	—	27,830	1,161,346
	3/5/2017	—	—	—	13,915	41,745	—	580,673
Mr. Goldin	—	6,125	245,000	490,000	—	—	—	—

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	3/5/2017	—	—	—	—	—	27,830	1,161,346
	3/5/2017	—	—	—	13,915	41,745	—	580,673
Ms. Helvey	—	6,125	245,000	490,000	—	—	—	—
	3/5/2017	—	—	—	—	—	27,830	1,161,346
	3/5/2017	—	—	—	13,915	41,745	—	580,673

- Represents performance-based restricted stock unit awards which were granted under our 2010 Equity Incentive Plan. For more information, see “Compensation Discussion and Analysis — Long-Term Incentives (Equity Awards)” above.
- (2) The restricted stock units were made under our 2010 Equity Incentive Plan and are subject to service-based vesting requirements.
- Reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in the valuation of these awards are set forth herein or in the notes to our consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 27, 2018. These amounts do not necessarily correspond to the actual value that may be realized by the NEO.
- (4) The non-equity incentive plan compensation earned by Messrs. Carter and Belliveau was paid under their respective sales commission plans, not under our 2017 Executive Compensation Plan. In each case, the sales executive received a sales commission, of which a portion was allocated to subscription revenue and a portion was allocated to services revenue. In addition, each sales commission plan established a sales quota and certain milestone sales targets. The target amount represents the amount to be earned in 2017 assuming (i) that the full sales quota and all milestone sales targets were met, (ii) any contingencies such as a material customization which may impair or delay revenue recognition has cleared, and (iii) that none of the sales contracts entered into were renewals. For more information, see “— Compensation Discussion and Analysis — Sales Commission Plan.”
- (5) Amount has been converted from Euros into U.S. Dollars at a rate of \$1.1979 per Euro, the exchange rate in effect on January 1, 2017.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding stock options and stock awards held by our NEOs as of December 31, 2017.

Name	Vesting Commencement Date	Option Awards — Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards — Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards — Exercise Price (\$)	Option Awards — Expiration Date	Stock Awards — Number of Shares or Units of Stock That Have Not Vested (#)(2)	Stock Awards — Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)(2)	Stock Awards — Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Not Vested (#)(3)	Stock Awards — Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested (\$)(1)(3)
Mr. Miller	11/7/2010	(4)532,250	—	6.51	11/7/2020	—	—	—	—
	5/1/2012	(4)248,700	—	20.85	5/1/2022	—	—	—	—
	7/1/2013	(4)116,500	—	52.72	8/10/2023	—	—	—	—
	7/1/2014	(4)70,042	11,958	46.20	7/1/2024	—	—	—	—
	7/1/2016	(7)—	—	—	—	33,825	1,195,037	—	—
	3/5/2017	(7)—	—	—	—	45,325	1,601,332	—	—

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	7/1/2016	(5)—	—	—	—	—	—	67,500	(9)2,384,775
	3/5/2017	(5)—	—	—	—	—	—	67,990	(9)2,402,087
Mr. Swartz	5/2/2016	(4)19,792	30,208	34.30	5/2/2026	—	—	—	—
	5/2/2016	(7)—	—	—	—	37,500	1,324,875	—	—
	5/2/2016	(8)—	—	—	—	20,000	706,600	—	—
	3/5/2017	(7)—	—	—	—	42,140	1,488,806	—	—
	3/5/2017	(5)—	—	—	—	—	—	21,070	(9)744,403
Mr. Carter	7/1/2012	(4)1,113	—	23.81	7/1/2022	—	—	—	—
	7/1/2013	(4)46,670	—	44.01	7/1/2023	—	—	—	—
	7/1/2014	(4)42,708	7,292	46.20	7/1/2024	—	—	—	—
	7/1/2015	(4)33,833	22,167	35.56	7/9/2025	—	—	—	—
	7/1/2014	(7)—	—	—	—	3,097	109,417	—	—
	7/1/2015	(7)—	—	—	—	11,750	415,128	—	—

Name	Vesting Commencement Date	Option Awards — Option		Option Awards — Option Expiration Date	Stock Awards— of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)(2)	Stock Awards— Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#)(3)	Stock Awards— Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(1)(3)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable					
Mr. Belliveau	7/1/2016	(7)—	—	—	—	21,900	773,727	—
	3/5/2017	(7)—	—	—	—	27,830	983,224	—
	7/1/2016	(5)—	—	—	—	—	—	14,600
	3/5/2017	(5)—	—	—	—	—	—	(9)515,818
	7/1/2013	(4)46,670	—	44.01	7/1/2023	—	—	—
	7/1/2014	(4)42,708	7,292	46.20	7/1/2024	—	—	—
	7/1/2015	(4)33,833	22,167	35.56	7/9/2025	—	—	—
	7/1/2015	(7)—	—	—	—	11,750	415,128	—
	7/1/2016	(7)—	—	—	—	21,900	773,727	—
	3/5/2017	(7)—	—	—	—	27,830	983,234	—
Mr. Goldin	7/1/2016	(5)—	—	—	—	—	—	14,600
	3/5/2017	(5)—	—	—	—	—	—	(9)515,818
	7/1/2012	(4)7,788	—	23.81	7/1/2022	—	—	—
	7/1/2013	(4)46,670	—	44.01	7/1/2023	—	—	—
	7/1/2014	(4)42,708	7,292	46.20	7/1/2024	—	—	—
	7/1/2015	(4)33,833	22,167	35.56	7/9/2025	—	—	—
	7/1/2014	(7)—	—	—	—	3,097	109,417	—
	7/1/2015	(7)—	—	—	—	11,750	415,128	—
	7/1/2016	(7)—	—	—	—	21,900	773,727	—
	3/5/2017	(7)—	—	—	—	27,830	983,234	—
	7/1/2016	(5)—	—	—	—	—	—	—