Cape Fear Bank CORP
Form 10-K/A
April 29, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

ANNUAL REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File No. 000-51513

CAPE FEAR BANK CORPORATION

(Exact name of registrant as specified in its charter)

North Carolina	**20-3035898**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1117 Military Cutoff Road,

Wilmington, North Carolina	**28405**
(Address of principal executive offices)	**(Zip Code)**

(910) 509-2000

Registrant s telephone number, including area code

Securities registered under Section 12(b) of the Act:

Common Stock, $3.50 par value per share	**NASDAQ Capital Market**
(Title of class)	**(Name of exchange on which registered)**

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Act.)

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting Company x

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates (computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity), as of the last business day of the Registrant s most recently completed second fiscal quarter was $36,342,080.

On March 13, 2008, the number of outstanding shares of Registrant s common stock was 3,841,785**.**

Explanatory Note

The purpose of this Annual Report on Form 10-K/A is to amend Part III, Items 10 through 14, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which was filed with the Securities and Exchange Commission (the SEC) on April 3, 2008 (the 2007 10-K), to include information previously omitted from the 2007 10-K in reliance on General Instruction G to Form 10-K, which provides that registrants may incorporate by reference certain information from a definitive proxy statement filed with the SEC within 120 days after the end of the fiscal year. The Company s definitive proxy statement will not be filed before April 29, 2008 (i.e., within 120 days after the end of the Company s 2007 fiscal year). The Company currently anticipates scheduling its 2008 annual meeting of stockholders to be held in August 2008.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Annual Report on Form 10-K/A under Item 15 of Part IV hereof.

For purposes of this Annual Report on Form 10-K/A, and in accordance with Rule 12b-15 under the Exchange Act, Items 10 through 14 and 15(a)(3) of our 2007 10-K have been amended and restated in their entirety. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K on April 3, 2008, and no attempt has been made in this Annual Report on Form 10-K/A to modify or update other disclosures as presented in the 2007 10-K. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-K.

When used in this Report, the terms we, us, our and similar terms refer to Registrant, Cape Fear Bank Corporation. Registrant s banking subsidiary, Cape Fear Bank, is referred to as the Bank.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Directors. The following table lists information about our current directors.

Name and age	Positions with us and the Bank	Year first elected (1)	Principal occupation and business experience
Cameron Coburn (42)	Chairman, President and Chief Executive Officer; member of Executive Committee	1998	Our executive officer
Walter Lee Crouch, Jr. (51)	Vice Chairman; Chairman of Corporate Governance Committee and member of Audit Committee	1998	Realtor/broker, Intracoastal Realty Corporation
Becky Parker O Daniell (44)	Director; member of Audit Committee	2007	President and Chief Financial Officer, Atlantic Quest Corporation (operates five full service restaurants); certified public accountant
Craig S. Relan	Director; Chairman of	1998	Private investor; retired Vice President and General Manager, Digital Systems Research (1988 to 1996) (ship building and

(61)	Audit Committee and member of Corporate Governance Committee		professional engineering)
Jerry D. Sellers (53)	Director; member of Corporate Governance Committee and Executive Committee	2003	Partner, Sellers Tile Co., Inc. (ceramic tile and stone installation)

Name and age	Positions with us and the Bank	Year first elected (1)	Principal occupation and business experience
Walter O. Winter (67)	Director; member of Executive Committee	1998	Real estate investor; retired engineer, General Electric Corporation (1963 to 1996)

(1) First elected refers to the year in which each individual first became a director of the Bank. With the exception of Ms. O Daniell, each nominee first became our director at the time we were incorporated during 2005 as the Bank s holding company. Ms. O Daniell was appointed as a director during 2007 to fill a vacancy on the Board.

Executive Officers. We consider our six officers listed below to be our and the Bank s executive officers.

Cameron Coburn, age 42, serves as our Chairman, President and Chief Executive Officer. He has served as Chairman of the Bank s Board since 2001 and as its President and Chief Executive Officer since 2000. He formed the Bank s organizing group during 1997 and, prior to his election as President, he had served as Executive Vice President and Chief Operating Officer of the Bank since it was incorporated and began operations during 1998. Prior to his employment with the Bank, Mr. Coburn was employed by United Carolina Bank in Wilmington, North Carolina, from 1992 to 1997, and by RHNB National Bank of North Carolina in Charlotte, North Carolina, from 1989 to 1992.

Betty V. Norris, age 53, serves as our and the Bank s Senior Vice President, Treasurer and Chief Financial Officer. She has been employed by the Bank since it began operations during 1998. Ms. Norris previously was employed as Vice President and Chief Financial Officer of Peoples Savings Bank, Wilmington, North Carolina, from 1985 to 1996.

Lynn M. Burney, age 60, serves as our and the Bank s Senior Vice President and Chief Operations Officer. She has been employed by the Bank since it began operations during 1998. Ms. Burney previously was employed by United Carolina Bank in Wilmington, North Carolina, from 1973 to 1997, where she last served as Vice President and Branch Development Support Officer.

R. James MacLaren, age 59, was appointed to serve as our Senior Vice President, and as the Bank s Senior Vice President and Credit Administrator, during 2006. During February 2007, he became our and the Bank s Chief Credit Officer. He previously served as the Bank s First Vice President from 2003 until 2006 and Vice President from 1999 to 2003. He has been employed by the Bank since 1999.

A. Mark Tyler, age 43, was appointed to serve as our Senior Vice President, during December 2006. He has served as the Bank s Senior Vice President and Business Banking Manager since 2003 and, during February 2007, he became our and the Bank s Chief Banking Officer. He previously served as the Bank s Vice President and Business Banking Officer from 1999 to 2003. He has been employed by the Bank since 1999.

Michelle L. Southerland, age 50, serves as our Vice President and Corporate Secretary. She has served as Vice President of the Bank since 2003 and was Assistant Vice President from 2002 to 2003. She has served as Corporate Secretary of the Bank since it began operations in 1998.

Audit Committee. Our Board of Directors has appointed an Audit Committee that is a joint committee of the Bank s and our Boards. Under its charter, the Committee is responsible for:

- appointing our independent accountants and approving their compensation and the terms of their engagement;
- approving services proposed to be provided by the independent accountants, and
- monitoring and overseeing the quality and integrity of our accounting and financial reporting process and audits of our financial statements.

The current members of the Audit Committee are: Craig S. Relan - Chairman, W. Lee Crouch, Jr., and Becky Parker O Daniell. Windell Daniels also served as a member of the Committee during 2007 and until his death on April 22, 2008.

Audit Committee Financial Expert. Rules adopted by the SEC require that we disclose whether our Board of Directors has determined that our Audit Committee includes a member who qualifies as an audit committee financial expert as that term is defined in the SEC s rules. To qualify as an audit committee financial expert under the SEC s rules, a person must have a relatively high level of accounting and financial knowledge or expertise which he or she has acquired through specialized education or training or through experience in certain types of positions. We currently do not have an independent director who our Board believes can be considered an audit committee financial expert and, for that reason, there is no such person who the Board can appoint to our Audit Committee. However, our Audit Committee currently includes one member who is a certified public accountant and, in general, we believe the members of our Audit Committee have a level of financial knowledge and experience that is sufficient for a bank our size that, like us, does not engage in a wide variety of business activities.

Code of Ethics. Our Board of Directors has adopted a Code of Ethics which applies to our directors and all our executive officers. A copy of the Code is posted on the Bank s website at *www.capefearbank.com.* A copy of the Code of Ethics also may be obtained, without charge, upon written request to our Corporate Secretary at Cape Fear Bank Corporation, 1117 Military Cutoff Road, Wilmington, North Carolina 28405.

Section 16(a) Beneficial Ownership Reporting Compliance. Our directors and executive officers are required by Federal law to file reports with the Securities and Exchange Commission regarding the amounts of and changes in their beneficial ownership of our common stock. Based on our review of copies of those reports, we are required to disclose failures to report shares beneficially owned or changes in beneficial ownership, and failures to timely file required reports, during previous years. It has come to our attention that the initial report of beneficial ownership of our director, Becky Parker O Daniell, inadvertently was not filed when she was first appointed as a director during December 2007. The report was filed promptly after it was discovered that it had been overlooked.

Item 11. Executive Compensation

Executive Compensation

Summary

The following table shows the cash and certain other compensation paid or provided to or deferred by our named executive officers for 2007 and 2006 calendar years. Our executive officers are compensated by the Bank for their services as its officers, and they receive no separate salaries or other cash compensation from us for their services as our officers. With the exception of our Chief Executive Officer, Cameron Coburn, who is employed under an Employment Agreement as described below, each of the named officers is employed by the Bank on an at will basis and subject to reelection as an officer each year, and none of them have employment agreements with us or the Bank. However, as described under the caption Severance Agreements, we and the Bank have entered into a Severance Agreement with each of our other executive officers named in the table below which provides for payments to them if their employment terminates under various circumstances within twelve months following a change in control of our company.

Summary Compensation Table

Name and Current Principal Position	Year	Salary (2)	Bonus	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	Nonqualified Deferred Compensation Earnings	All Other Compensation (5)	Total
Cameron Coburn (1)	2007	$ 241,625	$ -0-	$ 28,359	$ -0-	$ -0-	$ 15,376	$ 285,360
Chairman, President and	2006	197,564	100,000	28,359	-0-	-0-	13,673	339,596
Chief Executive Officer								
Betty V. Norris	2007	154,592	-0-	20,624	-0-	-0-	9,450	184,666
Senior Vice President and	2006	133,375	50,000	20,624	-0-	-0-	8,003	212,002
Chief Financial Officer								
Lynn M. Burney	2007	145,254	-0-	20,624	-0-	-0-	8,225	174,103
Senior Vice President and	2006	123,750	50,000	20,624	-0-	-0-	7,425	201,799
Chief Operations Officer								
R. James MacLaren	2007	140,647	-0-	3,441	-0-	-0-	8,600	152,688
Senior Vice President and	2006	115,716	25,000	3,440	-0-	-0-	6,883	151,039
Chief Credit Officer								
A. Mark Tyler	2007	135,494	-0-	4,125	-0-	-0-	8,600	148,219
Senior Vice President and	2006	115,513	30,000	4,125	-0-	-0-	6,865	156,503
Chief Banking Officer								

(1) Mr. Coburn is a member of our Board, but he does not receive any additional cash compensation for service as a director.
(2) Includes the amount of salary deferred at each officer s election under our Section 401(k) plan.
(3) Reflects the amount of compensation expense, as calculated under SFAS 123R, that we recognized in our financial statements for 2007 relating to all outstanding stock options held by each officer. A discussion of material assumptions made in our valuation of and expense related to outstanding stock options is contained in Notes B and N to our audited consolidated financial statements.
(4) For 2007, the threshold levels of performance for incentive awards to be paid under our Annual Cash Incentive Plan were not met. As a result, no cash awards were paid to our named executive officers under the plan.
(5) The listed amounts include:

for each officer, matching contributions made by the Bank under our Section 401(k) plan as follows: Mr. Coburn - $13,500; Ms. Norris - $9,450; Ms. Burney - $8,225; Mr. MacLaren - $8,600 and Mr. Tyler - $8,600; and

for Mr. Coburn, $1,876 in premiums paid by us for a separate disability insurance policy for his benefit.

In addition to compensation paid in cash, from time to time our executive officers receive various personal benefits. None of the named officers received personal benefits during 2007 for which our estimated aggregate incremental cost exceeded $10,000, and the amounts of those benefits are not included in the table. We also provide our officers with group life, health, medical and other insurance coverages that are generally available to all salaried employees, and the cost of that insurance is not included in the table. As described below under the caption Life Insurance Benefits, upon the named officers deaths their beneficiaries will be entitled to a portion of the death benefits payable under split-dollar life insurance policies that are owned by the Bank and for which it paid lump-sum premiums during 2004. No premiums were paid on those policies during 2007, and no amounts related to those policies are included in the table.

Employment Agreement

Mr. Coburn is employed pursuant to an Employment Agreement which has a rolling three-year term. On each anniversary date of the agreement, the term is extended by one additional year unless our Board of Directors gives notice that it will not be extended. Unless sooner terminated, the term of the agreement will end when Mr. Coburn reaches age 55. The agreement provides for:

annual base salary, which will be reviewed and must be increased for cost of living increases on an annual basis, and otherwise may be increased at the discretion of the Board;

participation in all officer or employee compensation, bonus, incentive and benefit plans in effect from time to time;

reimbursement for the cost of disability insurance providing an annual benefit not to exceed $96,000 and an elimination period of no fewer than six months;

nomination for election as a director each year; and

payment of membership assessments and dues in civic and social clubs mutually agreeable to Mr. Coburn and the Board.

The agreement was amended during 2006 to ensure that payments made under it would be in compliance with Section 409A of the Internal Revenue Code. As part of that amendment, the agreement was updated to reflect Mr. Coburn s $200,000 base salary rate for 2006 as the minimum base salary payable under the agreement.

If Mr. Coburn s employment is terminated by us without cause, or if Mr. Coburn terminates his own employment for good reason, he will continue to receive salary payments for the unexpired term of the agreement, and we will provide him with continued life and medical insurance coverage for the remaining term or, if earlier, until he reaches age 55, dies, or becomes employed elsewhere. Continued life and medical insurance coverage also will be provided for the remaining term of the agreement following termination of his employment as a result of disability. Good reason will exist if, without Mr. Coburn s consent:

his base salary is reduced;

his bonus, incentive or other compensation award opportunities under our plans are reduced (unless the reduction is a company-wide reduction that applies to all participants), or his participation in any of our benefit plans is terminated (other than as a result of a change in the law or the loss of tax deductibility of employer contributions);

our Board fails to reappoint Mr. Coburn as our Chief Executive Officer, or fails to nominate him for reelection, or to take any other action to cause him to be reelected, as a director;

duties are assigned to him that are materially inconsistent with his position as principal executive officer or that represent a reduction in his authority;

we fail to obtain an assumption of the agreement by a successor to the Bank in a merger or other reorganization; or

our principal office is relocated, or Mr. Coburn is required to relocate his principal work location, by more than 15 miles from its location on the date of the agreement.

No payments will be made under the agreement if Mr. Coburn s employment is terminated by us for cause or by him without good reason.

If there is a change in control of our holding company or the Bank, Mr. Coburn will be entitled to:

a lump-sum payment equal to three times the total of his base salary rate at the time of the change in control plus the amount of any bonuses or incentive compensation earned for the preceding calendar year;

continued medical and life insurance coverage for the remaining term of the agreement or, if earlier, until he reaches age 55, dies, or becomes employed elsewhere;

immediate vesting of his benefits under any qualified and non-qualified plans in which he participates, unless those plans separately address the effect of a change in control;

payment of up to $500,000 in legal expenses he incurs in enforcing his rights if we do not pay our obligations under, or challenge the enforceability of, his agreement after a change in control; and

if the payment and acceleration of benefits under other plans or arrangements results in a parachute payment that is subject to an excise tax under Sections 280G and 4999 of the Internal Revenue Code, an additional gross-up payment equal to the amount of the excise tax he owes, plus the additional amount needed for him to receive the amount of the excise tax net of all income, payroll or other excise taxes.

These change in control payments and benefits would be in lieu of any other severance payments provided for in Mr. Coburn s agreement, and his right to receive the lump-sum payment would not depend on whether his employment is terminated.

Mr. Coburn s agreement provides that, in general, a change in control will have occurred if:

a person accumulates ownership of our stock that amounts to more than 50% of the total fair market value or total voting power of our outstanding stock;

within a 12-month period a person acquires shares of our stock that amount to 35% or more of the total voting power of our outstanding stock;

a majority of our directors are replaced during any 12-month period by persons whose appointment or election is not endorsed in advance by a majority of our directors; or

there is a change in ownership of our assets that amounts to 40% or more of the total gross fair market value of all of our assets.

Under the Employment Agreement, Mr. Coburn has agreed not to disclose any confidential or proprietary information regarding our company or the Bank to any other person and that, for a period of one year following a termination of his employment, he may not directly or indirectly compete with the Bank by providing financial products or services on behalf of another financial institution, or assisting another financial institution in providing financial products or services, within a 15-mile radius of any of the Bank s full-service banking offices. If Mr. Coburn violates the agreement by competing with the Bank during the one-year restriction period, he will forfeit all his rights and retirement benefits under his Salary Continuation Agreement described below, as well as all death benefits under his Endorsement Split-Dollar Agreement described below. However, the restriction on his ability to compete against the Bank will terminate immediately upon a change in control.

The following table lists estimates of aggregate payments and benefits that would have been paid or provided to Mr. Coburn under his Employment Agreement if his employment had terminated under various circumstances, or there had been a change in control, on December 31, 2007.

Type of Termination Event and Description of Payment or Benefit	**C. Coburn**
Involuntary Termination Without Cause, or Voluntary Termination for Good Reason, other than after a Change in Control	
Aggregate cash payments (1)(2)	$ 500,000
Continued insurance coverage (3)	14,114
Change in Control, Without Regard to Termination of Employment	
Lump-sum cash payment (2)	1,050,000
Continued insurance coverage (3)	14,114
Additional 280G gross-up payment (4)	1,201,534

(1)

Reflects the aggregate of monthly payments, based on Mr. Coburn s annual salary rate of $250,000 that would be made during the remaining term of the Employment Agreement. The term of the agreement is extended by one additional year each January 1. On December 31, 2007, the remaining term was two years, but on the following day it would have been extended by an additional year to three years.

(2) Does not include any amount for reimbursement of legal expenses. The agreements require us to pay up to $500,000 in legal expenses incurred by Mr. Coburn in enforcing his rights if we do not pay our obligations under, or challenge the enforceability of, the agreement after a change in control.

(3) Reflects our estimate of the aggregate present value of the cost of continued insurance coverage equivalent to that currently provided to Mr. Coburn that could be obtained in the marketplace for the remaining term of the Employment Agreement. The term of the agreement is extended by one additional year on each January 1. On December 31, 2007, the remaining term was two years but on the following day it would have been three years.

(4) Reflects our estimate of the additional payment that would be made to Mr. Coburn to pay excise taxes under Sections 280G and 4999 of the Internal Revenue Code on excess parachute payments to him under all change-in-control arrangements, and to permit him to receive the payment net of income, payroll or other excise taxes.

Plan Based Compensation

We have two compensation plans or programs under which we may grant awards from time to time to our executive officers, including our:

Omnibus Equity Plan, under which various types of equity-based awards may be granted; and

Annual Cash Incentive Award under which additional cash compensation may be paid each year based on our corporate performance.

Equity-Based Awards. During 2007, we adopted our new Omnibus Equity Plan which is described below. Until that new plan was adopted, we granted options from time to time to our officers and employees to purchase shares of our common stock under our Incentive Stock Option Plan. Each outstanding stock option gave the officer to whom it was granted the right to buy shares of our common stock during a stated period of time (ordinarily ten years) at a fixed price per share equal to the market value of our stock on the date the option was granted. Options were granted under that plan on terms that provided for them to vest, or become exercisable, at intervals as to portions of the shares they covered based on a vesting schedule. The options generally terminate 12 months following an officer s death or disability, or 90 days following an officer s retirement, involuntary termination without cause, or any termination as a result of a change in control of our company. They terminate immediately following the voluntary termination of an officer s employment or an involuntary termination for cause. Options granted under the plan do not include any performance-based conditions. The exercise price and vesting schedule for each option was determined by our Corporate Governance Committee at the time the option was granted. We have also granted stock options to our Chief Executive Officer, Cameron Coburn, under our similar Nonstatutory Stock Option Plan which provided for the grant of options to our directors as described under the caption Director Compensation.

At our 2007 Annual Meeting, our shareholders approved a new Omnibus Equity Plan to replace the Incentive Stock Option Plan and Nonstatutory Stock Option Plan. The new plan authorizes the issuance of an aggregate of 243,042 shares of our common stock, as adjusted to reflect the 5% stock dividend we effected during 2007, which includes 89,041 new shares authorized for issuance plus 154,001 shares that, at the time, remained available for new stock option grants under the existing plans, as adjusted for the stock dividend. Because the new plan replaced the two existing plans, no additional awards will be made under the old plans. However, the old plans remain in effect with respect to stock options that had been granted prior to approval of the new plan.

Under the new Omnibus Equity Plan, awards may be granted to officers and employees consisting of either:

incentive stock options (the right to purchase shares of our common stock during a stated period at a specified exercise price and under which the employee receives favored tax treatment under Internal Revenue Code Section 422);

non-qualified stock options (the right to purchase shares of our common stock during a stated period at a specified exercise price but which does not qualify to be treated as an incentive stock option for tax purposes);

restricted stock awards (an award of shares of our common stock that is subject to the risk of forfeiture if specified conditions, usually the employee s continued employment, are not satisfied by the end of a specified restriction period);

performance share awards (an award of shares of our common stock that may be earned based on the extent to which specified corporate or individual goals or other performance criteria are satisfied by the end of a specified measurement period); or

stock appreciation rights (an award consisting of the right to receive cash equal to the difference between the fair market value of a specified number of shares of our common stock on the date award is exercised, and a specified aggregate exercise price for those shares).

As described under the caption Director Compensation, the Omnibus Equity Plan also authorizes the grant of non-qualified stock options and restricted stock awards to our directors

During 2007, no new stock options or other awards were granted to any of our executive officers named in the Summary Compensation Table under the old plans or the new Omnibus Equity Plan, and no previously granted options were exercised by any of them. The following table contains information about all outstanding options held by those named executive officers on December 31, 2007. All of those options were granted in prior years under the old plans.

OUTSTANDING EQUITY AWARDS AT 2007 YEAR END

	Option Awards			
Name	**Number of Securities Underlying Unexercised Stock options (Exercisable) (1)**	**Number of Securities Underlying Unexercised Stock Options (Unexercisable) (1)**	**Option Exercise Price (1)**	**Option Expiration Date**
Cameron Coburn	34,453(2)	-0-	$ 6.68	06/17/09
	12,058(2)	-0-	6.68	06/17/09
	6,201(2)	-0-	3.78	02/21/12
	10,335(2)	-0-	3.78	02/21/12
	5,925	-0-	9.76	07/22/15
	18,949	18,949(3)	9.76	07/22/15
Betty V. Norris	17,226	-0-	6.68	06/17/09
	6,890	-0-	3.78	02/21/12
	13,781	6,890(4)	9.76	07/22/15
Lynn M. Burney	17,226	-0-	6.68	06/17/09
	6,890	-0-	3.78	02/21/12
	13,781	6,890(4)	9.76	07/22/15
R. James MacLaren	2,583	-0-	6.68	06/17/09
	1,033	-0-	3.78	02/21/12
	2,297	1,148(5)	9.76	07/22/15
A. Mark Tyler	1,033	-0-	3.78	02/21/12
	2,756	1,378(6)	9.76	07/22/15

(1) Numbers of shares and exercise prices have been adjusted to reflect stock splits in 2001 and 2005 and 5% stock dividends in 2006 and 2007.

(2) Since 12/31/07, Mr. Coburn has exercised options to purchase 33,047 of the aggregate of 63,047 shares covered by these four options.

(3) Exercisable as to 9,474 shares on 7/22/2008 and 9,475 shares on 7/22/2009.
(4) Exercisable as to 6,890 shares on 07/22/08.
(5) Exercisable as to 1,148 shares on 07/22/08.
(6) Exercisable as to 1,378 shares on 07/22/08.

Under the old plans, upon the retirement, death or disability of one of our named executive officers, or the termination of an officer s employment following a change in control, his or her stock options would be exercisable in full for specified periods of time, notwithstanding any vesting schedule. Without regard to the termination of an officer s employment, upon a merger of our company, or a statutory share exchange, in which we are not the surviving entity, or a sale of substantially all of our assets, if a provision is not made in the transaction for the assumption of our outstanding stock options by the surviving company, or the exchange of our options for options covering shares of the surviving company s stock, then our outstanding options will expire upon completion of the transaction, but they will become exercisable in full immediately before the transaction is complete without regard to any vesting schedule.

Annual Cash Incentive Plan. Under our Annual Cash Incentive Plan, a portion of the cash compensation paid each year to our executive officers and other employees chosen to participate in the plan is tied to the extent to which we achieve goals set by our Board for the year with respect to various measures of performance. For 2007, an incentive award could be paid to each participant, including our executive officers named in the Summary Compensation Table above, equal to:

the participant s Base Amount, which was stated as a percentage of the mid-point of his or her salary grade and reflected the maximum incentive award that the participant was eligible to receive, *multiplied by*

a percentage of from 0% to 100% (the Applicable Percentage) determined based on the amount by which our 2007 Pre-Tax, Pre-Incentive Income (defined as our consolidated earnings, before taxes and before any deduction for the payment of incentive awards under the plan) exceeded a minimum amount for the year, *multiplied by*

a percentage of from 0% to 100% (the Performance Percentage) determined based on the extent to which team and/or individual performance goals (Performance Goals) assigned to participants, or to groups of participants with similar responsibilities (and expressed as quantitative and/or qualitative measures of company-wide, branch and/or individual performance related to the participants duties and responsibilities), were met for the year.

For 2007, the Applicable Percentage would be 0%, meaning that no incentive awards could be earned, if Pre-Tax, Pre-Incentive Income was less than $2,210,802. The Applicable Percentage would be 100%, meaning that the maximum incentive awards could be earned, if Pre-Tax, Pre-Incentive Income amounted to $3,106,317 or more.

To calculate the Performance Percentage, a weight, expressed as a percentage, or a range of percentages, was assigned to each Performance Goal. Those percentages were positive numbers in the case of certain Performance Goals, and they were negative numbers (or deductions) in the case of certain other Performance Goals. Each participant s Performance Percentage would equal the aggregate of the positive percentages related to goals that were met, minus the aggregate of the negative percentages related to goals that were not met. The Performance Goals and weights that applied to our named executive officers for 2007 are listed in the following table.

Performance Goal	**Weight**
Pre-Tax, Pre-Incentive Income of at least $2,210,802	35%
Increase in non-in	