

GERMAN AMERICAN BANCORP, INC.

Form 8-K

February 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (date of earliest event reported):

February 24, 2014

GERMAN AMERICAN BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Indiana

(State or Other Jurisdiction of Incorporation)

001-15877

(Commission File Number)

35-1547518

(IRS Employer Identification No.)

711 Main Street

Box 810

Jasper, Indiana

(Address of Principal Executive Offices)

47546

(Zip Code)

(812) 482-1314

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

(e) On February 24, 2014, the Board of Directors (the "Board") of German American Bancorp, Inc. (the "Company"), by the vote of the members of the Board who are not "interested directors" within the meaning of NASDAQ rules, established the balanced scorecards for each of the executive officers of the Company that, taken together, constitute the Company's Management Incentive Plan as extended for 2014 for such executive officers, all as recommended by the Compensation/Human Resources Committee of the Board (the "Committee").

The Company's executive officers as of February 24, 2014, who will participate in the Management Incentive Plan for 2014, are Mark A. Schroeder (Chairman and Chief Executive Officer), Clay W. Ewing (President), Bradley M. Rust (Executive Vice President and Chief Financial Officer), Randall L. Braun (Senior Vice President / Head of Retail Banking), and Keith A. Leinenbach (Senior Vice President / Chief Credit Officer).

Each "balanced scorecard" establishes specific corporate and shareholder-related performance goals balanced by the officer's area of responsibility, his business unit, and his expected individual level of contribution to the Company's achievement of its corporate goals. These balanced scorecards describe potential awards based on performance for 2014 only ("short-term awards") and on performance for the three-years ending December 31, 2014 ("long-term awards"), as follows:

Potential Short-Term Cash Incentive Awards

Under the Management Incentive Plan, the Company pays additional compensation in the form of annual cash incentive awards to executive officers rewarding annual performance, contingent upon the achievement of certain goals that are established by the short-term balanced scorecards. At the February 24 meeting, the Board established the criteria for the award of short-term cash incentive payments for the five participating executive officers. In the case of each performance criterion, credit is awarded at 100% if the performance criterion is met at the target level, and at half that if achieved at the 50% level (threshold), and at twice the target award level if achieved at the 200% level (maximum). Credit is given proportionately for performance falling between the threshold and maximum levels, but is not given for performance that is not at least at the threshold level, or for that portion of performance that exceeds the maximum level.

Potential short-term cash incentive awards for the executive officers will be determined by their individual scorecards as percentages of their 2014 base salaries, based on the extent to which targeted levels of 2014 performance are met or exceeded, as follows:

<u>Name of Executive</u>	<u>Potential Dollar Amount of 2014 Short-Term Award as Percentage of 2014 Base Salary at the Following Performance Levels</u>		
	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>
Mr. Schroeder	25%	50%	100%
Mr. Ewing	20%	40%	80%
Mr. Rust	15%	30%	60%
Mr. Braun	12.5%	25%	50%
Mr. Leinenbach	12.5%	25%	50%

Cash incentive award entitlements, if any, for services during 2014 under the scorecards will be earned by each of the executive officers based on the extent to which targeted levels of performance are met or exceeded with respect to the following components:

formula assessments of 2014 corporate or business unit performance and

judgmental assessments of individual performance during 2014.

Corporate Performance Component

For 2014, the short-term corporate performance criteria specified by the scorecards of Messrs. Schroeder, Ewing and Rust are the following measures of income, revenue, balance sheet growth, and asset quality, weighted as a percentage of each of their total short-term performance measures, as follows:

Fully-diluted earnings per share (EPS) growth, ranked against a peer group	25%
Efficiency ratio, ranked against a peer group	15%
Growth in core organic deposits and repurchase agreements	10%
Growth in core organic taxable loans	20%
Average ratio of non-performing assets to total assets, ranked against a peer group	10%

The scorecards of Messrs. Braun and Lienenbach for 2014 are the same as those of the other three executive officers named above, except that (a) Mr. Braun's scorecard measures only retail loans growth, and Mr. Leinenbach's scorecard measures only commercial loans growth, instead of total loans growth, and (b) Mr. Braun's scorecard asset quality measure is the average ratio of past due consumer and residential mortgage loans instead of the broader non-performing assets measure applicable to the scorecards of the other four executives.

Individual Performance Component

For 2014, the individual performance criteria for each executive officer (weighted as 20% of their respective total short-term performance measures) will be satisfied through the judgmental assessment of his respective overall job performance during 2014 (threshold achievement being good, target achievement being very good, and maximum achievement being outstanding).

Expected Degree of Difficulty, on Balance, of Achieving Targeted Performance Levels

The targeted levels of achievement for the corporate or business unit financial metrics described above were established at levels that the Committee and Board believed were reasonable levels of corporate or business unit performance, considering factors that included the past performance and the Company's best estimates for 2014. When setting the target level for each corporate or business unit measure, however, the Company did not necessarily attempt to tie that level to the Company's expectations for 2014; therefore, some of the measures require the achievement of greater-than-expected corporate or business unit performance at the targeted level, and some will reward achievement of lesser-than-expected corporate or business unit performance at the targeted level. Overall, however, and on a balanced approach when weighting all of the formula and judgmental performance factors (income statement, balance sheet, and personal) in accordance with the scorecard weights, the Company believes that the target levels

are appropriately challenging yet reasonable attainable by each of its executives participating in the 2014 Management Incentive Plan.

Vesting and Clawback Potential

Amounts payable in respect of 2014 short-term cash incentive awards will vest in periodic installments throughout 2015, if the recipient has continued to be employed by the Company as of each installment vesting date (subject to certain exceptions), and may be recouped by the Company in the event of certain material financial restatements of its performance metrics or other circumstances, in the Committee's discretion.

2014 Net Income Trigger

Notwithstanding the satisfaction of one or all of the other performance measures outlined above, no short-term cash incentive award will be payable by the Company unless the Company's consolidated net income for 2014 is at least \$20,000,000.

Potential Long-Term Incentive Awards

Long-term incentive (LTI) Awards are established by the Management Incentive Plan upon recommendation of the Committee based upon the executive officer's level of responsibility, and are earned in proportion to the extent to which the Company has met or exceeded certain corporate financial targets on an average basis over the three-year period ending in the year for which the scorecard is established. At the February 24 meeting, the Board established potential long-term incentive awards for executive officers as percentages of their 2014 base salary based on the extent to which targeted levels of three-year performance are met or exceeded, as follows:

<u>Name of Executive</u>	<u>Potential Dollar Amount of 2014 Long-Term Award as Percentage of 2014 Base Salary at the Following Performance Levels</u>		
	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>
Mr. Schroeder	25%	50%	100%
Mr. Ewing	20%	40%	80%
Mr. Rust	15%	30%	60%
Mr. Braun	12.5%	25%	50%
Mr. Leinenbach	12.5%	25%	50%

LTI award targets for services during the three-year period ending December 31, 2014 under the scorecards are based on the following selected long-term corporate performance criteria, each as benchmarked against the Company's average of its percentile rankings for such criteria over each of the three years ending December 31, 2014, with each year's percentile ranking computed against that year's custom Midwest publicly-held banking company peer group:

return on equity (for 2012 only, the return on common equity) (50% weight), and

fully-diluted earnings per common share growth (50% weight).

For purposes of benchmarking the Company's three-year average of its percentile rankings for the above criteria:

For the return on equity component, the threshold average percentile ranking was fixed at the 50th percentile, the target was at the 75th percentile, and the maximum was at the 90th percentile (the Company's actual percentile rankings with respect to this component for 2012 and 2013 were the 86th and 100th percentiles, respectively).

For the fully-diluted earnings per common share growth component, the threshold average percentile ranking was fixed at the 50th percentile, the target was at the 75th percentile, and the maximum was at the 90th percentile (the Company's actual percentile rankings with respect to this component for 2012 and 2013 were the 52^d and 57th percentiles, respectively).

In the case of each of the two LTI award performance criteria, credit is awarded at 100% if the performance criterion is met at the target level, and at half that if achieved at the 50% level (threshold), and at twice the target award level if achieved at the 200% level (maximum). Credit is given proportionately for performance falling between the threshold and maximum levels, but is not given for performance that is not at least at the threshold level, or for that portion of performance that exceeds the maximum level.

The Company intends to satisfy any LTI award that is deemed earned for 2014 by (a) issuing common shares of the Company (the transferability of which will be restricted pending satisfaction of a continuing employment vesting requirement) that have a market value (based on the market value of unrestricted Company common shares as of the stock issuance date in 2015) of approximately 60% of the dollar amount of the LTI award (rounded up to the nearest 30-share block) and (b) granting the award recipient the right to receive cash payments (vesting over the same continuing employment period) equal in total amount to approximately 40% of the dollar amount of the LTI award.

Vesting and Clawback Potential

Amounts of Company stock and cash payable in respect of LTI awards for the three-year period ended December 31, 2014 will vest in one-third installments on December 5 of each of the years 2015, 2016 and 2017, if the recipient has continued to be employed by the Company as of each such vesting date (subject to certain exceptions). Any such amounts may be recouped by the Company in the event of certain material financial restatements of its performance metrics or other circumstances, in the Committee's discretion.

2014 Net Income Trigger

Notwithstanding the satisfaction of one or both of the LTI award targets outlined above, no LTI award will be payable by the Company unless the Company's consolidated net income for 2014 is at least \$20,000,000.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

GERMAN AMERICAN BANCORP, INC.

By: /s/ Mark A. Schroeder

Mark A. Schroeder, Chairman of the Board and
Chief Executive Officer

Dated: February 28, 2014