

COLONIAL BANCGROUP INC  
Form DEF 14A  
March 09, 2009  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

**SCHEDULE 14A**

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

**The Colonial BancGroup, Inc.**

(Name of Registrant as specified in Its Charter)

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

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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TO OUR SHAREHOLDERS:

We cordially invite you to attend the annual meeting of the shareholders of The Colonial BancGroup, Inc. to be held at 10:00 a.m., central time, Wednesday, April 15, 2009, at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama.

Enclosed is a Notice of the meeting, a Proxy Statement, a Proxy Card and the Annual Report to Shareholders for 2008. At the meeting, we will also report on matters of current interest to our shareholders.

We hope that you will be able to join us for the annual meeting in our Corporate and Bank Headquarters. Whether you plan to attend the meeting or not, please sign and date the enclosed proxy card and return it in the accompanying envelope as promptly as possible. Alternatively, you may submit your vote by telephone or via the internet. Your proxy may be revoked by your vote in person at the meeting, by submission of a later dated proxy, or by you giving written notice of revocation to the Secretary of The Colonial BancGroup, Inc., at any time prior to the voting thereof.

Thank you for your support of Colonial BancGroup.

Sincerely,

Robert E. Lowder

*Chairman of the Board,*

*Chief Executive Officer and President*

March 12, 2009

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**NOTICE**  
**of the**  
**ANNUAL MEETING OF SHAREHOLDERS**  
**of**  
**THE COLONIAL BANCGROUP, INC.**

**To Be Held April 15, 2009**

NOTICE IS GIVEN that the annual meeting of shareholders of The Colonial BancGroup, Inc. ( BancGroup ), a Delaware corporation, will be held at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama, on Wednesday, April 15, 2009 at 10:00 a.m., central time, for the following purposes:

1. To elect the nominees named in the Proxy Statement as directors to serve terms of three years;
2. To ratify the appointment of PricewaterhouseCoopers, LLP as BancGroup s independent auditors for 2009;
3. To approve the amended and restated Stock Incentive Plan;
4. To approve the amended Employee Stock Purchase Plan; and
5. To transact such other business as may properly come before the meeting or any adjournments thereof, but which is not now anticipated.

Details respecting these matters are set forth in the accompanying Proxy Statement. Only shareholders of record at the close of business on February 18, 2009 will be entitled to notice of, and to vote at, the meeting. A complete list of the shareholders of record entitled to vote at the meeting, arranged in alphabetical order and showing the address of each shareholder and the number of shares registered in the name of each shareholder, shall be open to examination by any shareholder at BancGroup s principal office at 100 Colonial Bank Boulevard, Montgomery, Alabama, during ordinary business hours for any purpose germane to the meeting. Such list will be open for a period of at least ten days prior to the meeting.

All shareholders of BancGroup are cordially invited to attend the meeting in person. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE. ALTERNATIVELY, YOU MAY VOTE YOUR PROXY VIA TELEPHONE OR THE INTERNET. YOUR PROXY MAY BE REVOKED BY YOUR VOTE IN PERSON AT THE MEETING, BY YOUR EXECUTION AND SUBMISSION OF A LATER DATED PROXY BEFORE THE MEETING, OR IF YOU VOTE ELECTRONICALLY, THEN BEFORE 11:59 P.M. EASTERN TIME ON APRIL 14, 2009, OR BY YOU GIVING WRITTEN NOTICE OF REVOCATION TO THE SECRETARY OF BANCGROUP AT ANY TIME PRIOR TO THE VOTING THEREOF.

By Order of the Board of Directors

Robert E. Lowder

*Chairman of the Board,*

*Chief Executive Officer and President*

March 12, 2009

**Important Notice Regarding the Availability of Proxy Materials for the**

**Shareholder Meeting to Be Held on April 15, 2009**

**The proxy statement and annual report to shareholders are available at**

**[www.cstproxy.com/colonialbank/2009](http://www.cstproxy.com/colonialbank/2009)**

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**THE COLONIAL BANCGROUP, INC.**

**100 Colonial Bank Boulevard**

**Post Office Box 241148**

**Montgomery, Alabama 36124**

**Telephone: 334-676-5000**

**PROXY STATEMENT**

**FOR 2009 ANNUAL MEETING OF SHAREHOLDERS**

**OVERVIEW**

This Proxy Statement and the accompanying Proxy Card are furnished on or about March 12, 2009, by The Colonial BancGroup, Inc. ( BancGroup ) to the holders of record of Common Stock as of February 18, 2009 in connection with BancGroup s annual meeting of shareholders (the Annual Meeting ), and any adjournments thereof, to be held on Wednesday, April 15, 2009, at 10:00 a.m., central time, at the Colonial Corporate Campus, 100 Colonial Bank Boulevard, Montgomery, Alabama. The matters to be considered and acted upon, including the election of directors, are described herein.

BancGroup s Nominating and Corporate Governance Committee and the Board of Directors of BancGroup (the Board ) recommend (i) the election of each of the three director-nominees named in this Proxy Statement for a term of three years, (ii) the ratification of PricewaterhouseCoopers, LLP as BancGroup s independent auditors for 2009, (iii) the approval of the amended and restated Stock Incentive Plan and (iv) the approval of the amended Employee Stock Purchase Plan in order that those plans may remain in effect.

Your proxy is solicited on behalf of the Board and is revocable at any time prior to the voting of such proxy by giving written notice of revocation to the Secretary of BancGroup, by submitting a later-dated proxy, or by voting in person at the Annual Meeting. Mere attendance at the Annual Meeting without voting in person will not be sufficient to revoke a previously submitted proxy. All properly submitted proxies delivered pursuant to this solicitation will be voted at the Annual Meeting in accordance with instructions, if any. If no instructions are given, the proxies will be voted FOR election of the director-nominees named herein, FOR Proposals 2, 3 and 4 and in accordance with the instructions of management as to any other matters that may come before the Annual Meeting.

The cost of soliciting proxies will be borne by BancGroup. In addition to mailing, proxies may be solicited by personal interview, telephone, facsimile, e-mail or other electronic means. Banks, brokers, nominees or fiduciaries should forward the soliciting material to the principals to obtain authorization for the execution of proxies, as required by law. BancGroup also will allow proxies to be delivered by telephone or via the internet. BancGroup may, upon request, reimburse banks, brokers and other institutions, nominees and fiduciaries for their expenses in forwarding proxy material to the principals. BancGroup has retained the firm of Georgeson, Inc. to solicit proxies and will pay that firm a fee of \$7,500, plus out of pocket expenses.

**SHAREHOLDERS ELIGIBLE TO VOTE**

This Proxy Statement is furnished to the holders of Common Stock who were holders of record as of the close of business on February 18, 2009. Only those holders are eligible to vote at the Annual Meeting.

Votes will be tabulated and counted by one or more inspectors of election appointed by the Chairman of the Board. Proxies marked as abstentions and shares held in street name which have been designated by brokers on proxy cards as not voted will not be counted as votes cast. Such proxies will be counted for purposes of determining a quorum at the Annual Meeting. A quorum consists of a majority of the shares of

Common Stock outstanding.

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**CORPORATE GOVERNANCE**

**Director Independence**

The Board has determined that the majority of BancGroup's directors are independent. Throughout this Proxy Statement, a reference to being independent means independent as that term is defined by Section 303A.02 of the listing standards of the New York Stock Exchange (the NYSE). In determining director independence, the Board broadly considers relevant facts and circumstances, including each director's personal independence and the manner in which each director's affiliations, both corporate and personal, might impair his or her independence. An independent director must be free of any relationship with BancGroup or its management that may impair the director's ability to make independent judgments. Particular attention is paid to certain relationships between each director and management of BancGroup and Colonial Bank and any credit relationships that may exist between Colonial Bank and a director or a director's related interest. Generally, credit relationships with directors and their affiliates will not impair independence so long as the terms of the credit relationship are similar to terms extended to other comparable borrowers. Additionally, unpaid co-membership with another BancGroup director or executive officer on the board or council of any religious, educational, governmental, public-service or non-profit institution is not deemed to adversely impact independence. A director who is an executive officer or principal shareholder of a company that makes payments to or receives payments from BancGroup for property or services in an amount which, in any one of the last three fiscal years, is more than the greater of \$1 million or 2% of the consolidated gross revenues of either BancGroup or such director's company will not be considered independent. Applying these standards, which are intended to comply with the NYSE corporate governance rules, and all other applicable laws, rules and regulations, the Board has determined that each of the following directors presently in office is independent: Lewis E. Beville, Augustus K. Clements, III, Robert S. Craft, Hubert L. Harris, Jr., Clinton O. Holdbrooks, Milton E. McGregor, Joe D. Mussafer, William E. Powell, III, James W. Rane, Simuel S. Sippial, Jr. and Edward V. Welch.<sup>(1)</sup>

The Board of Directors conducts an annual self-assessment led by the Nominating and Corporate Governance Committee. In addition, the Nominating and Corporate Governance Committee, the Compensation Committee and the Audit Committee undergo an annual assessment of their performance in accordance with their respective charters. The non-employee directors of the Board (which currently are all the directors except the Chairman) meet in executive session at each regularly scheduled meeting, and such meetings are presided over by Mr. Miller, Vice-Chairman of the Board. Prior to July 2008, the Board, at least once a year, held a Super Executive Session comprised solely of independent directors. The Super Executive Session was presided over by Robert Craft, Chairman of the Nominating & Corporate Governance Committee of the Board. On July 9, 2008, the Nominating and Corporate Governance Committee unanimously passed a resolution adding a Super Executive Session at the conclusion of each Executive Session, with the Super Executive Session being presided over by Robert Craft, or his successor. During the July 16, 2008 BancGroup Board of Directors meeting, Mr. Craft advised the Board that the Corporate Governance Committee had passed a resolution requiring that Executive Sessions be followed by Super Executive Sessions each quarter instead of one session per year. The Board intends that independent directors make decisions on matters of corporate governance. As additional corporate governance standards are adopted, they will be disclosed on an ongoing basis on either BancGroup's website or in its public filings, as appropriate.

**Code of Ethics**

BancGroup has adopted a Code of Ethics for Principal Financial Officers that applies to BancGroup's chief executive officer, chief financial officer and chief accounting officer. This code of ethics was attached as Exhibit 14 to BancGroup's Annual Report on Form 10-K for the year ended December 31, 2003. Each year, the Board of Directors also reviews, amends if necessary or desirable, and readopts a code of ethics that applies to all employees, officers and directors of BancGroup and its subsidiaries. This more general code of ethics is posted on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com). In addition, copies of the codes of ethics and the committee charters referenced above are available to any shareholder who requests them by contacting David B. Byrne, Jr., Secretary, at 334-676-5000.

(1) Edward V. Welch will not stand for re-election and will cease serving as a Director on April 15, 2009.

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**Corporate Governance Guidelines**

In compliance with NYSE listing standards, BancGroup has adopted Corporate Governance Guidelines. These guidelines are posted on BancGroup's website at www.colonialbank.com.

**SHAREHOLDER COMMUNICATIONS WITH DIRECTORS**

The Company has a process to facilitate written communications by shareholders or other interested parties to the Board. Persons wishing to write to the Board of Directors of BancGroup or a specific director or committee of the Board should send correspondence to Lewis E. Beville, Chairman, Audit Committee, P.O. Box 241148, Montgomery, Alabama 36124-1148.

All appropriately designated communications received from shareholders or other interested parties will be forwarded to the applicable director or committee of the Board of Directors. Anyone who wishes to communicate with a specific Board member or committee should send instructions asking that the material be forwarded to the director or to the appropriate committee chairman.

BancGroup encourages its directors to attend its annual meeting of shareholders. Last year, all of BancGroup's directors attended the annual meeting.

**VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS**

As of February 18, 2009, BancGroup had 202,449,152 shares of Common Stock outstanding with approximately 9,959 shareholders of record. Each such share is entitled to one vote. In addition, as of that date, 2,340,669 shares of Common Stock were subject to issuance upon the exercise of options pursuant to BancGroup's stock option plans. The holders of stock options are not entitled to vote those shares until they have exercised the options. There are currently 400,000,000 shares of Common Stock authorized. BancGroup is not aware of any material change in the ownership of Common Stock since February 18, 2009.

**Security Ownership of Certain Beneficial Owners**

As of December 31, 2008, no person was known by BancGroup to be the beneficial owner of more than 5% of the outstanding shares of BancGroup common stock, except as follows:

**Name and Address**

<b>of Beneficial Owner</b>	<b>Shares of Common Stock Beneficially Owned(1)</b>	<b>Percent of Class</b>
Barclays Global Investors, NA 400 Howard Street, San Francisco, CA 94105	15,683,142	7.75%

(1) This information is based on a Schedule 13G filed by Barclays Global Investors, NA on February 5, 2009. Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, LTD, Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited, Barclays Global Investors (Deutschland) AG share voting power over 13,365,105 of the shares and share dispositive power over all of the shares. These shares are held in trust accounts for the economic benefit of the beneficiaries of those accounts.

**Table of Contents****Security Ownership of Management and Directors**

The following table indicates for each director, director-nominee, executive officer, and all executive officers and directors of BancGroup as a group the number of shares of Common Stock beneficially owned on February 18, 2009.

Name	Shares of BancGroup Beneficially Owned	
	Common Stock	Percentage of Class Outstanding
<b>DIRECTORS</b>		
Lewis E. Beville	109,398(1)	*
Augustus K. Clements, III	68,808	*
Robert S. Craft	108,761(2)	*
Patrick F. Dye	39,560	*
Hubert L. Harris, Jr.	28,305	*
Clinton O. Holdbrooks	540,982(3)	*
Robert E. Lowder	8,287,028(4)	4.09%
John Ed Mathison	65,875(5)	*
Milton E. McGregor	1,705,342	*
John C. H. Miller, Jr.	47,984(6)	*
Joseph D. Mussafer	56,559	*
William E. Powell, III	54,417	*
James W. Rane	494,839(7)	*
Simuel S. Sippial, Jr.	82,799	*
Edward V. Welch	66,670(8)	*
<b>EXECUTIVE OFFICERS WHO ARE NOT ALSO DIRECTORS(9)</b>		
Sarah H. Moore	277,905	*
Patti G. Hill	261,602	*
David B. Byrne, Jr.	69,519	*
Sandra W. Jansky	75,000	*
Caryn Cope Hughes	102,204	*
All Executive Officers, and Directors as a group	12,441,353(9)	6.15%

\* Represents less than 1%.

- (1) Includes 480 shares owned by Mr. Beville's son.
- (2) Includes 2,808 shares held by the IRA of Mr. Craft's wife. Mr. Craft disclaims beneficial ownership of the shares.
- (3) Includes 100,000 shares held by Mr. Holdbrooks as trustee.
- (4) Includes 500,648 shares of Common Stock subject to options that are exercisable within 60 days of February 18, 2009. In addition, the total includes 25,960 shares owned by Mr. Lowder's wife. Mr. Lowder disclaims beneficial ownership of these shares. The total also includes 409,768 shares which are owned by the Estate of Catherine K. Lowder, deceased. Mr. Lowder is the personal representative and a beneficiary of the Estate and is also the trustee and a beneficiary of the Catherine K. Lowder Revocable Management Trust, to which the shares will be distributed. Mr. Lowder has been treated as the beneficial owner of these shares.
- (5) Includes 4,500 shares owned by Dr. Mathison's wife. Dr. Mathison disclaims beneficial ownership of these shares.
- (6) Includes 24,309 shares owned by Mr. Miller's wife. Mr. Miller disclaims beneficial ownership of these shares.
- (7) Includes 123 shares owned by a trust, of which Mr. Rane is the trustee. Mr. Rane disclaims beneficial ownership of these shares.

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- (8) Includes 20,000 shares which are pledged as collateral for borrowings and 362 shares owned by Mr. Welch's wife's estate. Mr. Welch disclaims beneficial ownership of these shares.
- (9) Includes all shares subject to options that are exercisable within 60 days of February 18, 2009 by the following BancGroup officers: Ms. Moore (116,429), Ms. Hill (105,629) and Mr. Byrne (31,616). Ms. Moore's amount includes 5,594 shares owned by her son. Mr. Byrne's amount includes 1,000 shares owned by his wife. Mr. Byrne disclaims beneficial ownership of these shares. Ms. Jansky began employment with Colonial on December 17, 2008. Caryn Cope Hughes, former Chief Credit Officer, separated from the Company on December 1, 2008. Her 102,204 shares are not included in the total ownership since she is no longer an Executive Officer.

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**PROPOSAL 1**

**ELECTION OF DIRECTORS**

**The Nominees**

The Board recommends that the shareholders elect the three persons named below to hold office for terms of three years, or until their successors are elected. BancGroup's Amended and Restated Certificate of Incorporation provides that the number of directors which shall constitute the entire Board shall be fixed from time to time by resolutions adopted by the Board, but shall not be less than three persons. If the shareholders elect directors as recommended by the Board, then the Board shall consist of 14 members. By resolution, the Board has currently fixed the maximum number of directors at 23.

BancGroup's Amended and Restated Certificate of Incorporation provides for the election of directors by classes to terms of three years, with one class of approximately one-third of the total number of directors to be elected each year. Because of Mr. Welch's mandatory retirement and Ms. Linden's resignation from the Board, there are only three nominees for the 2009 election. Three nominees are proposed for election to the class of directors whose terms expire in 2012. At the Annual Meeting, proxies cannot be voted for more than three directors or for a person who has not been properly nominated.

**Nomination Process**

The nominees listed below were selected by BancGroup's Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised solely of independent directors and is responsible for identifying individuals qualified to become Board members and recommending to the Board director nominees. The Nominating and Corporate Governance Committee will periodically review the size and composition of the Board and determine whether it is necessary or advisable to change the size of the Board, or to add or replace directors.

Nominees for director are selected on the basis of outstanding career achievement; broad business experience; independence; financial expertise; integrity; ability to make independent, analytical inquiries; understanding of the business environment; and willingness and ability to devote adequate time to Board duties. The Board believes that each director should have, and nominees are expected to have the capacity to obtain, a basic understanding of (i) the principal operational and financial objectives, plans and strategies of BancGroup, (ii) the results of operations and financial condition of BancGroup and of any significant subsidiaries or business segments, and (iii) the relative standing of BancGroup and its business segments in relation to its competitors. The Nominating and Corporate Governance Committee also considers it essential that the Audit Committee have at least one member who qualifies as an Audit Committee Financial Expert as that term is defined by the Securities and Exchange Commission (the "SEC") and the NYSE.

The Nominating and Corporate Governance Committee considers a variety of sources when evaluating individuals as potential Board members. BancGroup does not typically retain a search firm to assist in the selection of directors, and for the reasons stated below, there is no policy regarding director candidates recommended by shareholders. However, shareholders are free to communicate regarding director nominations as set forth in Shareholder Communications with Directors. Historically, most of BancGroup's director nominees have served on one of Colonial Bank's regional boards or the board of a company acquired by BancGroup, and have had a leadership position with a business or institution that is located in a community served by Colonial Bank. The Nominating and Corporate Governance Committee and the Board consider Colonial Bank regional board members to be an excellent source for nominees because service on a regional Colonial Bank board gives an individual an opportunity to better understand Colonial Bank and BancGroup, and the individual's prior service enables the Nominating and Corporate Governance Committee to evaluate the level of contribution that individual can make to BancGroup and its constituents. The Nominating and Corporate Governance Committee and Board also take into consideration the diversity of the Board when selecting

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nominees. The Nominating and Corporate Governance Committee will review this process from time to time and may alter the process at its discretion.

If, prior to the voting at the Annual Meeting, any person proposed for election as a director is unavailable to serve or for good cause cannot serve, the shares represented by all valid proxies may be voted for the election of such substitute as the Nominating and Corporate Governance Committee and the members of the Board may recommend. The management of BancGroup knows of no reason why any nominated person would be unavailable to serve as a director.

**Vote Required**

Assuming a quorum is present at the Annual Meeting, a plurality of the votes cast will be sufficient to elect the directors. Voting for directors is Proposal 1 on the proxy card.

The bylaws of BancGroup contain certain limitations on shareholder nominations of candidates for election as directors at the Annual Meeting. See *Bylaw Provisions Regarding Conduct of Shareholders Meetings* for a description of such limitations.

The following table provides certain biographical information about each nominee to be proposed on behalf of the Board and continuing directors whose terms will expire in 2010 and 2011. Unless otherwise indicated, each person has been engaged in the principal occupation shown for at least the last five years. The Board recommends that shareholders vote FOR the approval of the following Director nominees.

**NOMINEES FOR A TERM EXPIRING IN 2012:**

<b>Name, Age and Year</b>	<b>Position and Office</b>	
	<b>Held with BancGroup</b>	<b>Present and Principal</b>
<b>Became Director</b>	<b>And Colonial Bank</b>	<b>Occupation for Last Five Years</b>
Lewis E. Beville 56, 1997	Director, BancGroup; Chairman, Audit Committee; Member, Nominating and Corporate Governance Committee	Vice President of T&B Ltd. d/b/a Thames, Batre, Mattei, Beville and Ison (insurance agency), Mobile, AL
John Ed Mathison 70, 1987	Director, BancGroup	John Ed Mathison Leadership Ministries; Senior Minister, Frazer Memorial United Methodist Church , 1972 to 2008 - Retired, Montgomery, AL
Joseph D. Mussafer 69, 1981	Director, BancGroup; Member, Risk Committee; Member, Compensation Committee	President, MBC United Wholesale, LLC (beverage distributor), Montgomery, AL



**Table of Contents****CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2011:**

<b>Name, Age and Year</b>	<b>Position and Office</b>	
	<b>Held with BancGroup</b>	<b>Present and Principal</b>
<b>Became Director</b> Augustus K. Clements, III 66, 1997	<b>And Colonial Bank</b> Director, BancGroup; Member, Executive Committee; Director, Colonial Bank	<b>Occupation for Last Five Years</b> Managing Partner, Clements Financial Group, LLC, from 2001 through 2004; Financial Representative, Clements Financial Group, LLC since January 2005, Montgomery, AL.
Patrick F. Dye 69, 1981	Director, BancGroup	Special Advisor, Auburn University; Part Owner, Craftmasters Printing; Assistant to the President, Auburn University Foundation, since 2002; Former Host of Pat Dye Outdoors (Radio Show); Owner, Crooked Oaks Hunting Preserve; Former Owner, Wildlife Information, LLC (sold in 2006), Auburn, AL.
Milton E. McGregor 69, 1993	Director, BancGroup; Member, Compensation Committee	Chief Executive Officer and President, Macon County Greyhound Park d/b/a Victoryland; Chief Executive Officer and President, Jefferson County Racing Association (greyhound racing facility); Part Owner, Southern Springs Nursing Home; Part Owner, Union Street Partners, Montgomery, AL
William E. Powell, III 64, 1987	Director, BancGroup; Member, Audit Committee; Chairman, Nominating and Corporate Governance Committee;  Director, Colonial Bank;  Chairman, Colonial Bank Fiduciary Audit Committee	Executive Vice President, Alabama Cattlemen's Association (trade association representing the beef cattle industry), Montgomery, AL
Simuel S. Sippial, Jr. 66, 1997	Director, BancGroup; Chairman, Compensation Committee; Member, Executive Committee; Member, Risk Committee; Member, Nominating and Corporate Governance Committee; Director, Colonial Bank; Member, Colonial Bank Fiduciary Audit Committee; Member, Colonial Bank CRA Committee	President, Sippial Enterprises, Inc. (real estate investment company); Retired IBM Business Unit Executive, Montgomery, AL

**Table of Contents****CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2010:**

<b>Name, Age and Year</b>	<b>Position and Office</b>	
	<b>Held with BancGroup</b>	<b>Present and Principal</b>
<b>Became Director</b> Robert S. Craft 57, 1992	<b>And Colonial Bank</b> Director, BancGroup; Member, Nominating and Corporate Governance Committee; Member, Executive Committee; Member, Risk Committee	<b>Occupation for Last Five Years</b> Mayor City of Gulf Shores, AL; President, Craft Development Corp. (golf course ownership and development company); Managing Officer, Pinehurst Development (real estate development company); Managing Member, Craft Turf Farms LLC (turf grass production and sales company); President, Wingo Trucking Inc. (trucking company); Managing Member, Bright's Creek Development Co. LLC (golf course ownership company); Managing Member, TRI-TEL, LLC (hotel ownership company); President, Craft Realty, Inc.; Member, Craft Properties, Ltd. (a family limited partnership); Managing Member, Turf Properties, LLC and Turf Properties #2, LLC (turf grass production and sales company); Member, Craft Farms Land Development Company, LLC.; Member, Robert Craft Ventures LLC; Managing Member, Turf Properties #3, LLC, Foley, AL; Managing Member, Turf Properties #4, LLC, Foley, AL.
Hubert L. Harris, Jr. 65, 2004	Director, BancGroup; Member, Audit Committee; Member, Risk Committee	Chief Executive Officer of INVESCO North America from August 2003 to December 2005 - Retired; Chief Executive Officer of AMVESCAP Retirement from January 1998, to August 2003, Atlanta, GA
Clinton O. Holdbrooks 70, 1986	Director, BancGroup; Chairman, Risk Committee	Chairman of the Board, East Central Area of the Alabama Region from July, 2002 to July 2006 - Retired; Chairman of the Board, Central Alabama Region June 2000 to July 2002, Birmingham, AL
Robert E. Lowder* 66, 1981	Chairman of the Board, Chief Executive Officer and President, BancGroup; Chairman, Executive Committee; Chairman of the Board, Chief Executive Officer and President, Colonial Bank	Chairman of the Board and Chief Executive Officer, BancGroup and Colonial Bank since 1981; also President of BancGroup and Colonial Bank from 1981 to 2003 and since 2005, Montgomery, AL

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Name, Age and Year	Position and Office	
	Held with BancGroup	Present and Principal
<b>Became Director</b> John C. H. Miller, Jr. 65, 1981	<b>And Colonial Bank</b> Vice-Chairman of the Board, BancGroup; Member, Executive Committee	<b>Occupation for Last Five Years</b> Vice-Chairman of the Board, BancGroup since April, 2007; Attorney (through August 2006) and disability retiree and consultant, (September 2006 - August 2008) Miller, Hamilton, Snider & Odom, L.L.C. (law firm) Retired, Mobile, AL
James W. Rane 62, 1997	Director, BancGroup	President, Great Southern Wood Preserving, Inc., Great Southern Wood of Florida, Inc., Great Southern Wood of North Alabama, Inc. and Great Southern Wood Statesboro, Inc.; Manager, Texas, Great Southern Wood, LLC; President, Global Fibers USA, Inc., (lumber companies), Abbeville, AL

\* Indicates that the director is also an executive officer.

**Meetings of the Board of Directors and Committees**

BancGroup's Amended and Restated Certificate of Incorporation provides that there shall be an Audit Committee of the Board composed of not less than three directors appointed by the Board at least annually, none of whom shall be active officers of BancGroup. Pursuant to its charter, the Audit Committee shall meet at least four times each year, review BancGroup's quarterly and annual financial reports, and report the results of its examinations in writing to the Board at its next regular meeting. The Audit Committee may make recommendations to the Board and, with the approval of the Board, employ an independent firm of certified public accountants. The Board has determined that all members of the Audit Committee are independent, and that each member of the Audit Committee satisfies the experience and financial literacy requirements established by the NYSE. In addition, the Board has determined that two of its members, Lewis E. Beville and Hubert L. Harris, Jr., qualify as audit committee financial experts as defined by the NYSE and the SEC. The Audit Committee met five times in 2008 (See Audit Committee Report). The Audit Committee Charter, as amended, is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

On January 16, 2008, the Board approved the charter for BancGroup's newly formed Risk Committee. The Risk Committee was formed for the purpose of overseeing the policies, procedures and practices relating to BancGroup's enterprise-wide risks, compliance with applicable laws and regulations, and material pending or threatened litigation. The Board has determined that all members of the Risk Committee are independent, and that each member of the Risk Committee satisfies the experience and financial literacy requirements established by the NYSE. This committee met four times in 2008. The Risk Committee's charter is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

BancGroup's Compensation Committee discharges the Board's responsibilities in matters relating to executive compensation, administers BancGroup's executive incentive compensation and equity-based plans, oversees the preparation of BancGroup's proxy, and produces annually a report on executive compensation for inclusion in BancGroup's proxy statement. The Compensation Committee met nine times in 2008 (See the Compensation Committee Report). All current members of the Compensation Committee have been determined by the Board to be independent. The Compensation Committee's charter is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

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BancGroup's Nominating and Corporate Governance Committee nominates individuals to stand for election as directors of BancGroup, and monitors and evaluates BancGroup's standards of corporate governance. After a full discussion of qualifications of the nominees, this committee recommended the nomination of the individuals listed on page 7, who will stand for election at the 2009 annual meeting of shareholders. This committee met four times in 2008. The Board has determined that all members of the Nominating and Corporate Governance Committee are independent. The Nominating and Corporate Governance Committee has adopted a charter which is available on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com). The Nominating and Corporate Governance Committee will consider a nomination recommended by BancGroup shareholders, but only if the nomination is submitted in accordance with its charter.

BancGroup's Executive Committee performs certain actions in lieu of the Board at times when a meeting of the full Board is not feasible or practicable. This committee met three times in 2008. Actions taken by the Executive Committee at those meetings were later reviewed and ratified by the full board of directors.

During 2008, the Board met four times. All BancGroup directors attended 75% or more of the Board meetings and the respective committee meetings on which they served.

The following table shows the current membership of each committee.

Director	Executive	Audit	Compensation	Nominating and Corporate Governance	Risk
Lewis E. Beville		Chair		X	
Augustus K. Clements, III	X				
Robert S. Craft	X			X	X
Patrick F. Dye					
Hubert L. Harris, Jr.		X			X
Clinton O. Holdbrooks				X	Chair
Robert E. Lowder	Chair				
John Ed Mathison					
Milton E. McGregor			X		
John C. H. Miller, Jr.	X				
Joe D. Mussafer			X		X
William E. Powell, III		X		Chair	
James W. Rane					
Simuel S. Sippial, Jr.	X	X <sup>(1)</sup>	Chair	X	X

(1) Effective 2009.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires BancGroup's directors, certain officers and 10% shareholders, if any, to file reports of ownership and changes in ownership of BancGroup's common stock on Forms 3, 4 and 5 with the Securities and Exchange Commission. Such directors, officers and 10% shareholders, if any, are required by SEC regulations to furnish BancGroup with copies of all Section 16(a) forms they file.

To BancGroup's knowledge, based solely on a review of the copies of such forms received by BancGroup, and written representations from certain reporting persons that no Forms 5 were required for those persons, BancGroup believes that during the fiscal year ended December 31, 2008 all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% shareholders were complied with, except that Director Mathison filed one late Form 4 on October 9, 2008, for his spouse's open market purchase. Ms. Jansky filed one late Form 4 on December 22, 2008 that listed the awards she was granted upon her start date, December 17, 2008. Ms. Hughes filed one late transaction on her Form 5 on February 13, 2009, for her spouse's open market sale.

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**COMPENSATION DISCUSSION & ANALYSIS**

**Compensation Overview**

BancGroup strives to attract and retain highly motivated executives through the use of competitive total compensation. The overall guiding principle for executive compensation at BancGroup is to provide *Pay for Performance*. The Compensation Committee of the Board (hereafter referred to as the Committee) believes that compensation should be aligned with BancGroup's financial performance and the creation of long-term shareholder value. The Committee uses both quantitative and qualitative performance measures to achieve this compensation philosophy, with incentive compensation plans aligned with performance measures that are intended to ultimately drive shareholder value.

**Financial Performance**

BancGroup reported a loss of \$4.71 per share for 2008, representing an earnings decline during 2008 along with many other financial institutions. During 2008, BancGroup paid \$0.38 per share in dividends for the first three quarters of 2008, but suspended the payment of dividends in the fourth quarter. BancGroup's results were significantly impacted by the U.S. recession and the resulting decline in real estate values throughout the Company's footprint, particularly residential real estate. As a result, under BancGroup's *Pay for Performance* philosophy, the named executive officers received total compensation for 2008 and 2007, at well below superior (maximum) levels, driven by no annual cash incentive payouts for 2008 and cash incentives that were well below superior levels for 2007. Like shareholders, the stock values for BancGroup's executives declined and their overall total compensation was reduced during 2008.

During 2007, BancGroup earned \$1.17 per share, including \$1.37 per share on an operating basis. BancGroup paid \$0.75 per share in dividends during 2007, an increase from \$0.68 in 2006, while BancGroup's share price declined from \$25.74 to \$12.98. During 2006, BancGroup achieved significant growth in earnings per share to \$1.72 while maintaining its traditionally high levels of top quality assets and loans, with correspondingly low levels of non-performing assets. During 2006, shareholders received total returns of about 11.1%, representing an increase in share price from \$23.82 to \$25.74, plus the payment of \$0.68 in dividends.

**Role of the Compensation Committee**

**General**

The Committee discharges the Board's responsibilities in executive compensation matters and oversees equity-based plans for all employees and total compensation for executive officers. By its charter, the Committee is comprised of at least three members of the Board of Directors, each of whom is an independent director under the NYSE listing requirements. To fulfill its responsibilities, the Committee meets throughout the year and also takes action by written consent. During 2008, the Committee met nine times. The Chairman of the Committee reports on Committee actions at all meetings of the Board.

The Committee's function is more fully described in its charter, which has been approved by the Board, and can be viewed on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com).

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**COMPENSATION DISCUSSION & ANALYSIS**

**Interaction with Compensation Consultants and Management**

During 2008, Pearl Meyer & Partners ( Pearl Meyer ) served as the independent executive compensation consultant for the Committee. Pearl Meyer was retained to assist the Committee with general issues relating to executive compensation throughout the year. Although the Committee did not request a competitive pay review in 2008, Pearl Meyer was available as needed to provide assistance and data as requested by the Committee. Pearl Meyer also interacted with BancGroup management to provide data ultimately used by the Committee in its decisions. Pearl Meyer does not provide significant services to BancGroup management outside its role of providing advice to the Committee.

The Committee also requested senior executives, including the named executive officers, to be present at Committee meetings when executive compensation, BancGroup performance, and individual performance may be discussed and evaluated. While executives may provide insight, suggestions or recommendations regarding executive compensation, only the Committee members vote on executive compensation decisions. Compensation decisions regarding other executives were made by the Committee after considering information provided by the Chief Executive Officer.

**Compensation Philosophy, Objectives and Determinations**

**Compensation Philosophy**

The overall guiding principle for executive compensation at BancGroup is to provide *Pay for Performance*. The Committee believes the compensation provided to its executives should be aligned with BancGroup's financial performance and the creation of long-term shareholder value. It accomplishes this principle by targeting total compensation at or near market median levels for delivering similar financial and shareholder performance. Actual compensation can vary above or below market median levels commensurate with overall performance. As further discussed under **Pay Elements**, compensation is comprised of three primary components: (1) competitive base salaries; (2) annual cash incentives; and (3) long-term incentives including Options, Performance Based Restricted Stock and Time Based Restricted Stock.

The Committee uses both quantitative and qualitative performance metrics to measure and determine this compensation philosophy, with incentive compensation plans aligned with performance using quantitative factors such as earnings per share ( EPS ), efficiency ratio, net income, non-performing assets ratio, net charge-off ratio, expense control and share price. The Committee believes these measures drive the success and growth of BancGroup and provide enhanced shareholder returns. Individual performance measures are also used along with the corporate measures mentioned previously. The Chief Executive Officer's performance measures are objective and directly related to the CEO's roles and responsibilities. Executive officers other than the Chief Executive Officer generally have one component of the annual incentive plan tied to the individual's overall performance for the year which is subject to the CEO's judgment, while all other performance measures are related to the Company's performance and are objective and are quantitatively measurable. Although our annual incentive plans have traditionally been quantitative, due to the volatile economic environment, the Committee believed that the pay-for-performance objectives could best be achieved by allowing the Committee to have discretion in assessing executive pay against a broader view of performance. As a result, with the exception of Mr. Lowder in 2008, the Committee eliminated the formulaic executive incentive plans for 2008 and 2009 thereby allowing the Committee the ability to only pay incentives based upon the attainment of requisite corporate performance in light of the recessionary environment. As described below, the Committee did not award any incentive payouts for 2008.

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### **COMPENSATION DISCUSSION & ANALYSIS**

#### **Compensation Objectives**

BancGroup seeks to maintain a *Pay for Performance* culture through its executive compensation programs. The following are the specific objectives of BancGroup's compensation programs:

*Attraction* Provide pay levels sufficient to attract highly qualified, experienced executives who can further BancGroup's interests and enhance long-term shareholder value.

*Retention* Retain the services of key executives who deliver significant value to BancGroup.

*Motivation* Motivate executive performance by providing annual and long-term incentives that are contingent upon achieving BancGroup and individual performance goals.

*Shareholder Value Creation* Create a shareholder value-oriented culture by providing significant compensation opportunities comprised of equity-based incentives coupled with the encouragement of stock ownership.

#### **Compensation Determinations**

The Committee considers each of the following factors in determining the appropriate mix and level of compensation for each executive officer:

BancGroup's financial performance, including both annual and long-term.

Individual performance of executive officers.

The importance of share ownership by executive officers, which places emphasis on equity-based incentives.

Competitive pay levels commensurate with BancGroup's peers.

Compensation summaries compiled for each of the executive officers.

The Committee also takes into account the recommendations of BancGroup's Chief Executive Officer when considering the pay programs, pay levels, objectives and individual performance of the other executive officers, but ultimately makes decisions based primarily on its consideration of the factors discussed above.

#### **Compensation Structure**

##### **Pay Elements Overview**

BancGroup maintains three main components of compensation:

*Salary* fixed pay that takes into account an individual's role and responsibilities, experience, expertise and individual performance.

*Annual Cash Incentives* variable pay designed to reward attainment of annual financial and operational goals along with individual performance objectives, with award opportunities expressed as a percent of salary.

*Long-Term Incentives* equity-based awards including Stock Options (designed to reward for achievement of increased share price), Performance Based Restricted Stock (designed to reward for achievement of long-term financial performance goals), and Time Based Restricted Stock (designed primarily for retention purposes).

In addition, BancGroup provides certain executive perquisites and retirement benefits, as described in the accompanying tables. Each major compensation component is discussed below in more detail.



**Table of Contents****COMPENSATION DISCUSSION & ANALYSIS****Pay Levels and Benchmarking**

The last formal comprehensive review conducted by an independent consultant was completed in 2006 by Pearl Meyer. Although the study was formally completed in 2006, the analysis provided a foundation for the program structure and decisions going forward into 2007 and 2008. In addition, the peer group used for the compensation study was used for performance assessment purposes and to determine vesting levels for the Performance Based Restricted Stock.

The peer group used for 2008 (the 2008 Peer Group ) was developed with the assistance of Pearl Meyer and included 21 financial institutions with total assets ranging between \$10 billion and \$60 billion. These institutions were selected as peers because of their size, nature of operations, and/or geographic footprint. The following are the financial institutions included in the 2008 Peer Group:

Associated Banc-Corp	Huntington Bancshares Incorporated
BancorpSouth, Inc.	International Bancshares Corporation
BOK Financial Corporation	Marshall & Ilsley Corporation
Citizens Republic Bancorp, Inc.	The South Financial Group, Inc.
City National Corporation	Sterling Financial Corporation
Cullen/Frost Bankers, Inc.	Susquehanna Bancshares, Inc.
First Citizens BancShares, Inc.	Synovus Financial Corp.
First Horizon National Corporation	Valley National Bancorp
FirstMerit Corporation	Whitney Holding Corporation
Fulton Financial Corporation	Wilmington Trust Corporation
	Zions Bancorporation

Due to ongoing consolidations and changes in the financial services industry, the specific composition of the peer group may change from year to year. As a result of such changes, 16 of the peer banks were the same as 2007, with five additional banks having been added for the 2008 Peer Group. The 2008 Peer Group was primarily used by the Committee to provide performance comparisons for the purposes of the Performance Based Restricted Stock program described in more detail below.

**Pay Mix**

BancGroup uses the pay elements described above in a portfolio approach, which provides a well-proportioned mix of retention value, equity interest and at-risk compensation. The mix of metrics also balances annual and long-term compensation by gauging portions of compensation on both short-term financial performance and long-term financial and stock performance. In general:

The more senior an executive, the larger the portion of his or her total compensation will be at-risk .

Incentive compensation is weighted toward long-term equity incentives rather than short-term cash incentives. Traditionally our total compensation program has consisted of three core components; base salary, annual cash incentive and long-term equity based compensation. In recognition of the Committee's decision to cancel any quantitative annual incentive for 2008, the mix of total compensation changed in 2008 for most of the executives.

**Table of Contents****COMPENSATION DISCUSSION & ANALYSIS**

For 2008, the targeted pay mix for each named executive officer was as follows:

<b>Executive</b>	<b>Title</b>	<b>Salary as % of Total Compensation</b>	<b>Target Annual Cash Incentives as % of Total Compensation</b>	<b>Target Long-Term Equity Incentive as % of Total Compensation</b>
Robert E. Lowder	Chairman, CEO and President	23%	45%	32%
Sarah H. Moore	SEVP Chief Financial Officer	50%	0%	50%
Caryn Cope Hughes	SEVP Chief Credit Officer	50%	0%	50%
Patti G. Hill	SEVP Chief Operating Officer	50%	0%	50%
David B. Byrne, Jr.	EVP Secretary and General Counsel	56%	0%	44%
Sandra W. Jansky*	SEVP Chief Credit and Risk Officer			

\* - Because Ms. Jansky was hired in December 2008, the 2008 targeted pay mix proportions are not applicable for her. For 2009, Ms. Jansky's targeted pay mix is consistent with those of Ms. Moore and Ms. Hill.

In any given year, the Committee may make decisions to rebalance the overall program and address different objectives than those for 2008. Please note that in the table above, Target Annual Cash Incentives are shown as zero for Ms. Moore, Ms. Hughes, Ms. Hill and Mr. Byrne because they did not have a formal annual incentive plan for 2008. This compares to the 2007 targeted mix of 40%, 20% and 40% for salary, annual and long term incentives, respectively for Ms. Moore, Ms. Cope and Ms. Hill; and 48%, 14% and 38% for salary, annual and long term incentives, respectively, for Mr. Byrne. As shown above, Mr. Lowder did have a formal annual incentive plan in 2008 which was dependent upon specific performance goals which were not met. For 2009, the Compensation Committee decided to suspend that incentive plan for Mr. Lowder.

**Pay Elements Programs****Salary**

Salary decisions foster the *Retention* objective and, in the case of a new hire, the *Attraction* objective. The Committee reviews salaries annually and met in February 2008, to consider and approve salaries for the 2008 fiscal year for the named executive officers. The Committee does not approve salary changes based on a formula. After considering recommendations from the Chief Executive Officer, the Committee decided not to increase executive officer salaries in 2008 in light of the general economic conditions at the time. Ms. Jansky's salary was based upon competitive data and negotiations in connection with her employment in December 2008.

At its February 2009 meeting, the Committee decided that none of the named executive officers would receive a salary increase again for reasons related to general economic conditions and BancGroup's overall performance.

**Annual Incentives**

Annual incentives foster the *Motivation* objective by creating performance-based compensation that is focused on BancGroup's annual financial results. In prior years, BancGroup's annual incentive programs were structured in two formal plans: the Management Incentive Plan (MIP) and the Management Team Incentive Plan (MTIP). Both the MIP and MTIP provide annual incentive opportunities to the executive officers. The MIP allowed the Committee to decrease the resulting payout (negative discretion) but not to increase the resulting payout (positive discretion), while the MTIP allows for discretion, both positive and negative, on the Committee's part in determining annual incentive payouts.

**Table of Contents****COMPENSATION DISCUSSION & ANALYSIS**

Both plans focus on providing rewards for BancGroup's annual financial performance; the MTIP may also take into consideration individual performance. Because of the U.S. recession and the associated difficulties with forecasting financial performance, the MTIP was suspended for 2008, and as such the only named executive officer with defined performance measures for 2008 was Mr. Lowder, who participated in the MIP.

Mr. Lowder's performance target for 2008 was set at 100% of salary and the performance measures for 2008 were as follows:

Executive	EPS	Efficiency Ratio	Stock Price	Non-Financial(1)
Robert E. Lowder	30%	20%	30%	20%

(1) Based on selected reputational risk goals

Mr. Lowder's targets for the various performance measures were as follows: EPS growth 50% relative to the peer group, Efficiency Ratio 50% of the peer group and stock price growth 50% relative to the peer group.

The remaining named executive officers were eligible for a discretionary annual incentive payout based on BancGroup's general business performance and their individual performance during 2008. In February 2009, the Committee reviewed BancGroup's 2008 performance with respect to the performance measures chosen for the MIP and certified that Mr. Lowder was not eligible for a payout with respect to 2008. Further, the Committee did not approve any other incentive payments to any named executive officer for 2008 performance.

At the suggestion of management, and also due to the continuing U.S. recession and uncertainty in the banking industry, the Committee suspended the MIP and continued the prior year suspension of the MTIP for 2009.

**Long-Term Incentives**

Long-term incentives were awarded to executive officers in January 2008 from BancGroup's 2001 Long-Term Incentive Plan (LTIP) and serve to meet the following objectives:

*Motivation* Performance Based Restricted Stock is earned based on the achievement of long-term financial performance.

*Retention* Time Based Restricted Stock which vests based on the passage of time and continued employment.

*Shareholder Value Creation* Stock Options gain value based on increases in BancGroup's share price.

In addition, the LTIP grants provide the opportunity for each executive officer to achieve and maintain an equity interest in BancGroup.

Each of the executive officers received long-term incentives that included Performance Based Restricted Stock, Time Based Restricted Stock and Stock Options, each of which represented 1/3 of the total LTIP value, designed to place an equal emphasis on long-term financial performance, executive retention, and stock price performance. The Committee believes this is an appropriate split, providing for a significant financial performance incentive (meeting the compensation philosophy's *Motivation* objective), which if achieved, is expected to create significant shareholder value (meeting both the *Motivation* and *Shareholder Value Creation* objectives). The Committee expects to make annual grants of such equity incentives going forward and may vary the mix depending on the specific facts and circumstances at the time.



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**COMPENSATION DISCUSSION & ANALYSIS**

The 2008 Performance Based Restricted Stock grants are earned based on earnings per share growth relative to the 2008 Peer Group over the three-year performance period of 2008 through 2010. To achieve Threshold payout, BancGroup's cumulative annual growth rates in earnings per share must be greater than the 40<sup>th</sup> percentile of the peer group, while Target is set at the 50<sup>th</sup> percentile and Superior at the 85<sup>th</sup> percentile of the peer group. All Performance Based Restricted Stock shares granted in 2008 will be forfeited if Threshold performance levels are not achieved. If Threshold performance is achieved, 50% of the granted shares would vest, while Target performance would result in 100% of the granted shares vesting and Superior performance would result in the vesting of 150% of the granted shares. Performance between the respective levels would be pro-rated on a straight line basis.

The 2007 Performance Based Restricted Stock grants are earned based on earnings per share growth relative to the 2007 Peer Group over the three-year performance period from 2007 through 2009. To achieve Threshold payout, BancGroup's cumulative annual growth rates in earnings per share must be greater than the 40<sup>th</sup> percentile of the peer group, while Target is set at the 50<sup>th</sup> percentile and Superior at the 85<sup>th</sup> percentile of the peer group. All Performance Based Restricted Stock shares will be forfeited if Threshold performance levels are not achieved. If Threshold performance is achieved, 50% of the granted shares would vest, while Target performance would result in 100% of the granted shares vesting and Superior performance would result in the vesting of 150% of the granted shares. Performance between the respective levels would be pro-rated on a straight line basis.

The 2006 Performance Based Restricted Stock grants have substantially the same terms as the 2007 Performance Based Restricted Stock, except that they are for the three-year performance period from 2006 through 2008, and they will vest based upon predetermined cumulative annual growth rates of Colonial's Earnings Per Share during that period. The Committee believes the EPS growth objectives for the three-year period represent significant financial performance and, if achieved, will enhance shareholder value. The Superior performance levels represent significant performance beyond Target, which if achieved will lead to even more significant enhancement of shareholder value. As of December 31, 2008, the performance criteria were not met in relation to 8,150, 8,150, and 2,625 performance restricted shares for Ms. Moore, Ms. Hill and Mr. Byrne, respectively. During the first quarter of 2009, the Committee certified the results and all shares were forfeited pursuant to the terms of the award agreement. Mr. Lowder was not a participant in the 2006 Performance Based Restricted Stock program.

Additionally, Mr. Lowder received \$42,750, \$41,250 and \$31,500 worth of stock for his service on the BancGroup Board of Directors for 2008, 2007 and 2006, respectively.

***Retirement Benefits and Perquisites***

BancGroup maintains the Colonial Retirement Plan ( Retirement Plan ), a defined benefit pension plan that covers employees who have met certain age and length of service requirements. The Retirement Plan was frozen as of December 31, 2005, and no employees hired since that time can participate in the Retirement Plan. The amounts shown in the Pension Benefits Table represent those frozen amounts and will not change other than to take into account the change in present values caused by the passage of time. Mr. Byrne and Ms. Jansky are not participants in the Retirement Plan because they began employment after December 31, 2005.

BancGroup does not maintain any supplemental retirement plans for executive officers, but does provide for participation in the Colonial BancGroup 401(k) Plan (the 401(k) Plan ) for substantially all employees, including executive officers.

BancGroup implemented the 2006 Nonqualified Deferred Compensation Plan (the Deferred Compensation Plan ) at the beginning of 2006. The Deferred Compensation Plan allows for elective deferrals by each participant and was developed to provide tax and retirement planning opportunities to eligible participants. All

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### COMPENSATION DISCUSSION & ANALYSIS

BancGroup employees meeting the definition of highly compensated under the Internal Revenue Code (\$100,000 or more of cash compensation for 2007) are eligible to participate in the Deferred Compensation Plan. **BancGroup does not provide a match on deferrals to the Deferred Compensation Plan**, and all deferrals are of amounts already reported in the Summary Compensation Table.

Other compensation for Mr. Lowder includes \$181,913, \$251,731 and \$508,431, respectively, for 2008, 2007 and 2006, for his personal use of the Company's aircraft. Such amount was determined based upon actual incremental operating costs incurred for personal travel.

#### **Committee Discretion**

The Committee retains the discretion to decrease all forms of calculated incentive payouts (annual and long-term) based on significant individual or BancGroup performance shortfalls. For executive officers other than Mr. Lowder, the Committee may increase annual incentive payouts and/or consider special awards for significant achievements, including but not limited to superior asset management, investment or strategic accomplishments and/or consummation of mergers, acquisitions, dispositions or conversions. The Committee did not exercise discretion on incentive payouts for any named executive officer for 2008, however, the Committee did exercise some levels of discretion to recognize superior individual performance during 2007 and 2006.

For long-term incentive awards, the Committee does not have the discretion to increase payouts without losing certain taxation protection (see Impact of Tax and Accounting Considerations section on page 21), but can exercise negative discretion. In 2008, 2007 and 2006, the Committee did not exercise discretion either to increase or decrease any long-term payouts for the named executive officers.

#### **Conclusion**

Pay opportunities for specific executive officers may vary based on a number of factors such as scope of duties, tenure, institutional knowledge and/or difficulty in recruiting a new executive. Actual total compensation in a given year may vary above or below the target compensation levels based primarily on the attainment of short and long term financial goals and the enhancement of shareholder value. In some instances, the amount and structure of compensation is based on arm's-length negotiations with newly recruited executives, which reflects the highly competitive market for quality, proven managerial talent.

The level and mix of compensation that is finally decided upon is considered within the context of both the objective data from the competitive assessment of compensation and performance, as well as the subjective factors outlined above. The Committee believes that each of the compensation programs for the executive officers is within the competitive range of peer bank practices when compared to the objective comparative data even where subjective factors may have influenced the compensation decisions.

#### **Timing of Equity Grants**

The Committee grants Stock Options and other equity-based awards to BancGroup's executive officers and other employees on the day the Committee meets and approves such awards. Grants of these equity-based awards are generally determined by the Committee following their review of BancGroup's prior year performance, as well as the performance of individual executive officers. For 2008, other than the grants to Ms. Jansky, all grants to executive officers of Stock Options, Performance Based Restricted Stock and Time Based Restricted Stock were made on January 15, 2008, which was the date the Committee conducted a regularly scheduled meeting. The grants of Stock Options and Time Based Performance Units to Ms. Jansky were made upon her hiring in December 2008. Stock Options and other equity-based awards may also be granted at other times of the year in the event of a new hire, promotion or retention.

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**COMPENSATION DISCUSSION & ANALYSIS**

The 2008 Stock Options were granted with an exercise price equal to the closing price of BancGroup's stock on the date of grant, which conforms to the Securities & Exchange Commission's concept of fair market value as promulgated in its regulations covering the reporting of pay for named executive officers in proxy statements.

Mr. Lowder and the other executive officers did not play a role in the Committee's decision as to the timing of the grants of Stock Options. Following Committee approval, Human Resources and Accounting are charged with the ongoing administration of LTIP grants.

**Adjustment or Recovery of Awards**

Under Section 304 of The Sarbanes-Oxley Act of 2002, if BancGroup is required to restate its financial statements due to material noncompliance with any financial reporting requirements based upon a judicial determination of misconduct, the Chief Executive Officer and Chief Financial Officer must reimburse BancGroup for:

Any bonus or other incentive-based or equity-based compensation received during the 12 months following the first public issuance of the non-complying document.

Any profits realized from the sale of securities of BancGroup during those 12 months.

**Consideration of Prior Amounts Realized**

In furtherance of BancGroup's philosophy to reward executive officers for demonstrated superior performance, prior compensation outcomes, including stock compensation gains, are generally not considered in setting future compensation levels.

**Post-Termination Payments**

BancGroup had not historically used broad based employment, severance or change in control agreements for executive officers. Management and the Committee were aware that such agreements were in place at a significant majority of the peer banks and that the implementation of such agreements would positively affect BancGroup's ability to attract and retain key executives. As a result, during the first quarter of 2007, the Committee approved change in control agreements for certain executive officers and a limited number of other employees. In addition, the Committee approved an employment agreement, which included a change in control agreement for Ms. Jansky when she was hired in December 2008. See Pages 30 through 32 for additional discussion of the change in control agreements.

**Stock Ownership Guidelines and Pledging Policies**

BancGroup does not currently have formal stock ownership guidelines in place, but does encourage executive officers to own shares by providing significant equity opportunities through Stock Options, Performance Based Restricted Stock, Time Based Restricted Stock, the Employee Stock Purchase Plan and the 401(k) Plan. The Committee has not mandated stock ownership guidelines, however, BancGroup's Chairman, Chief Executive Officer and President has historically been BancGroup's largest shareholder and, as of the record date, remains BancGroup's largest non-institutional shareholder.

BancGroup also maintains a policy that prohibits executive officers from holding BancGroup securities in a margin account or pledging BancGroup securities as collateral for a loan. An exception exists if the executive requests prior approval from BancGroup to pledge securities as collateral for a loan (but not for margin accounts) and the executive can demonstrate the financial capacity to repay the loan without reliance on the pledged securities.



**Table of Contents****COMPENSATION DISCUSSION & ANALYSIS****Impact of Tax and Accounting Considerations**

As a general matter, the Committee considers the tax and accounting implications of the various compensation vehicles used by BancGroup. The Committee examines the accounting cost associated with long-term incentive grants when determining the amounts of such grants made to executive officers and employees.

Section 162(m) of the Internal Revenue Code generally prohibits any publicly held corporation from taking a federal income tax deduction for compensation paid in excess of \$1 million in any taxable year to the Chief Executive Officer and the next four highest compensated officers. Exceptions are made for qualified performance-based compensation, among other things. The Committee's goal is to maximize the deductibility of executive compensation while maintaining competitive compensation levels.

Instruments which are considered performance-oriented and tax deductible under Section 162(m) include Stock Options, Performance Based Restricted Stock and MIP annual incentive amounts. Salaries, Time Based Restricted Stock and MTIP annual incentives are generally tax deductible to the extent that they total less than \$1 million for each named executive officer. For 2008, 2007 and 2006, there was a portion of the compensation for the Chief Executive Officer which BancGroup was not able to deduct for income tax purposes. All other compensation for the named executive officers was deductible because the total was less than \$1 million for each executive.

If the Company issues preferred stock under the U.S. Treasury Capital Purchase Program or participates in certain other portions of the Troubled Asset Relief Program, BancGroup expects to be subject to a more stringent limitation on tax deductions for compensation arrangements under Internal Revenue Code Section 162(m)(5) and as such, the Company and the Committee will review the existing compensation agreements for each officer to ensure compliance with the Emergency Economic Stabilization Act and the American Recovery and Stabilization Act.

**Summary Compensation Table for 2008**

The following table provides information concerning total cash compensation earned or paid to the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executive officers of the Company during the fiscal years ended December 31, 2008, 2007 and 2006, as well as the percentage change from the prior year.

**Total Cash Compensation:**

Name and Principal Position	Year	Total Cash Compensation	Percentage Change from Prior year
Robert E. Lowder, Chairman, CEO and President	2008	\$ 1,158,041	0%
	2007	\$ 1,158,041	-34.8%
	2006	\$ 1,777,302	
Sarah H. Moore, SEVP and Chief Financial Officer	2008	\$ 428,904	-40.9%
	2007	\$ 726,263	5.4%
	2006	\$ 689,000	
Caryn Cope Hughes, Former SEVP and Chief Credit Officer	2008	\$ 428,904(1)	-19.8%
	2007	\$ 535,058	-20.5%
	2006	\$ 672,750	
Patti G. Hill, SEVP and Chief Operating Officer	2008	\$ 428,904	-40.9%
	2007	\$ 726,263	5.4%
	2006	\$ 689,000	
David B. Byrne, Jr. EVP, Secretary and General Counsel	2008	\$ 325,000	-16.4%
	2007	\$ 388,895	7.3%
	2006	\$ 362,500	
Sandra W. Jansky	2008	\$ 300,000(2)	

SEVP and Chief Credit and Risk Officer

2007  
2006

**Table of Contents****COMPENSATION DISCUSSION & ANALYSIS**

- (1) Ms. Hughes resigned on December 1, 2008 and her separation payment of \$464,000 is not included in her total cash compensation shown in this table.
- (2) Ms. Jansky's compensation for 2008 consists solely of a signing bonus paid at the start of her employment in December 2008. The amounts included in the above table for 2008 represent salary only, as no annual cash incentives were paid for that year to any named executive officers. For Mr. Lowder, both 2007 and 2008 represent salary only, as he did not receive a cash incentive for either year. The Company believes that this table provides a clear illustration of its Pay-for-Performance philosophy. In addition, the amounts ascribed to equity incentives in the Summary Compensation Table below significantly overstate the actual values realized by the executives over the course of 2006 - 2008, reflecting the returns our shareholders have realized over the same period.

**Total Compensation:**

Name and Principal Position (a)	Year (b)	Salary \$(1) (c)	Bonus \$(2) (d)	Stock awards \$(3) (e)	Option awards \$(3) (f)	Non-equity incentive plan compensa- tion \$(2) (g)	Change in pension value and nonqualified deferred compensa- tion earnings \$(4) (h)	All other compensa- tion \$(5) (i)	Total Compensa- tion \$(j)
Robert E. Lowder, Chairman, CEO and President	2008	\$ 1,158,041	\$	\$ 144,587	\$ 436,152	\$	\$	\$ 238,163	\$ 1,976,943
	2007	1,158,041		290,345	319,209		2,160	354,169	2,123,924
	2006	1,117,800		346	215,882	659,502		625,870	2,619,400
Sarah H. Moore, SEVP and Chief Financial Officer	2008	\$ 428,904	\$	\$ 96,239	\$ 107,058	\$	\$	\$ 13,500	\$ 645,701
	2007	428,904	150,000	137,623	85,484	147,359		13,500	962,870
	2006	414,000	68,000	179,743	51,577	207,000		12,100	932,420
Caryn Cope Hughes, Former SEVP and Chief Credit Officer	2008	\$ 428,904	\$	\$	\$ 107,534	\$	\$ 2,549	\$ 477,500	\$ 1,016,487
	2007	428,904		137,623	90,461	106,154	4,071	11,250	778,463
	2006	414,000		179,743	56,568	258,750		12,600	921,661
Patti G. Hill, SEVP and Chief Operating Officer	2008	\$ 428,904	\$	\$ 96,239	\$ 108,147	\$	\$	\$ 11,613	\$ 644,903
	2007	428,904	150,000	137,607	81,618	147,359		11,250	956,738
	2006	414,000	68,000	176,942	47,711	207,000		29,500	943,153
David B. Byrne, Jr. EVP, Secretary and General Counsel	2008	\$ 325,000	\$	\$ 17,317	\$ 63,262	\$	\$	\$ 13,716	\$ 419,295
	2007	325,000		30,362	45,907	63,895		13,500	478,665
	2006	250,000		26,728	28,694	112,500		6,365	424,287
Sandra W. Jansky SEVP and Chief Credit and Risk Officer	2008	\$	\$ 300,000	\$ 1,385	\$ 501	\$	\$	\$	\$ 301,886
	2007								
	2006								

- (1) Salaries reflected herein were effective as of January 1 of the respective year. Ms. Hughes resigned on December 1, 2008 and her separation payment is included in her total. Ms. Jansky was hired on December 17, 2008. Her salary is \$500,000 per year, however, due to her start date, Ms. Jansky did not receive any salary during 2008.
- (2) The amounts shown for Mr. Lowder, Ms. Moore, Ms. Hughes, Ms. Hill and Mr. Byrne were earned for performance during the year and paid the following February. The amount in the Bonus column for Ms. Jansky reflects a signing bonus pursuant to her employment contract. The amounts in the Bonus column for Ms. Moore and Ms. Hill reflect discretionary bonuses.
- (3) Columns (e) and (f) include amounts recognized as expense for equity compensation by BancGroup during 2006, 2007 and 2008 without considering estimated forfeitures. Expense is recognized in years during which service or performance is required for the employee to vest in the award or option. Because of the vesting features of the awards and options, the 2008 expense includes grants from 2003 through 2008, the 2007 expense includes grants from 2002 through 2007 and the 2006 expense includes grants from 2001 through 2006. Valuation assumptions for the purposes of calculating the

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expense are included in BancGroup's Annual Report on Form 10-K for 2008. **Expense is calculated in accordance with GAAP and does not reflect the actual value received by the executive, which may be more or less than the amount shown or zero.** For Ms. Hughes, because of her separation from the Company, no amount is reportable for 2008.

- (4) No amounts are reportable for 2006. The benefits shown for Ms. Hughes for 2008 and Mr. Lowder and Ms. Hughes for 2007 are the result of changes from the time value of money as they are one year closer to assumed retirement and changes in the discount rate being utilized to determine the present value. See following discussion of pension and nonqualified deferred compensation plans.

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(5) All other compensation in Column (i) includes the following amounts:

	Year	401 (k) Match	Profit Sharing Match	Other Compensation(6)	Totals
Robert E. Lowder,	2008	\$ 13,500	\$ 0	\$ 224,663	\$ 238,163
Chairman, CEO and President	2007	13,500	0	340,669	354,169
	2006	6,600	5,500	613,770	625,870
Sarah H. Moore,	2008	\$ 13,500	\$ 0	\$ 0	\$ 13,500
SEVP and Chief Financial Officer	2007	13,500	0	0	13,500
	2006	6,600	5,500	0	12,100
Caryn Cope Hughes,	2008	\$ 13,500	\$ 0	\$ 464,000	\$ 477,500
Former SEVP and Chief Credit Officer	2007	11,250	0	0	11,250
	2006	6,600	5,500	500	12,600
Patti G. Hill,	2008	\$ 11,613	\$ 0	\$ 0	\$ 11,613
SEVP and Chief Operating Officer	2007	11,250	0	0	11,250
	2006	6,600	5,500	17,400	29,500
David B. Byrne, Jr.	2008	\$ 13,716	\$ 0	\$ 0	\$ 13,716
EVP, Secretary and General Counsel	2007	13,500	0	0	13,500
	2006	865	5,500	0	6,365

(6) Other compensation for Mr. Lowder also includes \$181,913 for personal use of the company's aircraft. Such amounts were determined based upon actual incremental operating costs incurred for personal travel. Mr. Lowder's Other Compensation also includes \$42,750 in stock which represents payment for his service as a BancGroup Director during 2008.

During 2008, the MTIP was suspended by the Compensation committee. Further, no payouts were made under the MIP since the performance measures were not met.

For 2008 and 2007, the only amounts presented in Column (h) represent the net increase in value arising from the change in net present value of the expected benefit payments under the Colonial Retirement Plan resulting from the passage of time and the change in the applicable discount rate. For Ms. Hill and Ms. Moore, the net loss from the funds included in the Deferred Compensation Plan more than offset the change in net present value of their pension benefits. For 2006, no amounts are included in Column (h) as the annual change in the present value of accumulated pension benefit for each executive officer was a decrease in value. This Plan was closed to new employees on December 31, 2005. Relevant compensation amounts and years of service for future benefit calculations were also frozen at that time. The change in present value, which represents the present time value of money for one year (i.e., the executives are one year closer to retirement and the amounts are one year closer to probable payout) was more than offset by an increase in the discount rate used to calculate the present value amounts (as determined by increased market rates). BancGroup does not maintain any supplemental retirement plans for the executive officers. The Deferred Compensation Plan does not provide for any match from BancGroup or for above market returns on the deferred balances.

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The amounts in Column (i) are detailed in the chart included below the Table. BancGroup maintains a 401(k)/Profit Sharing Plan whereby BancGroup matched 401(k) deferrals for all employees (up to a total of 6% of pay for 2008 and 2007 and 3% of pay for 2006). During 2006, BancGroup also contributed 2.5% as profit sharing. Both components were available to substantially all employees and are subject to IRS limits. Other compensation for Mr. Lowder also includes \$181,913, \$251,731 and \$508,431, respectively, for 2008, 2007, and 2006, for the personal use of the Company's aircraft. Such amounts were determined based upon actual incremental operating costs incurred for personal travel. Mr. Lowder's Other Compensation also includes \$47,688 and \$73,839 for executive security and other services rendered during 2007 and 2006 as well as \$42,750, \$41,250 and \$31,500 in stock which represents payment for his service as a BancGroup Director during 2008, 2007 and 2006.

During 2006, because of Ms. Hill's frequent travel to Montgomery for BancGroup business, the Company provided Ms. Hill with access to a temporary housing facility in Montgomery. This facility was not Ms. Hill's

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primary residence. Ms. Hill's Other Compensation includes \$17,400 as the amount paid by BancGroup for the house. Ms. Hill personally paid all other expenses relative to the maintenance of the rental house. For 2008 and 2007, the Company did not reimburse any of Ms. Hill's expenses for this or any other housing facility.

**Grants of Plan-based Awards**

The following table details the plan-based incentive grants made to the executive officers during fiscal 2008.

Name	Grant date	Estimated future payouts under non-equity incentive plan awards(1)			Estimated future payouts under equity incentive plan awards(2)(3)(4)			All other awards:	All option awards:	Exercise or base price of option awards	Total fair market value on grant date
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	of stock awards: number of shares	number of securities underlying options		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Robert E. Lowder	na	\$ 579,021	\$ 1,158,041	\$ 2,316,082							
Robert E. Lowder	1/15/2008				25,643	51,286	76,929				\$ 579,019
Robert E. Lowder	1/15/2008							51,286			\$ 579,019
Robert E. Lowder	1/15/2008								200,000	\$ 11.29	\$ 448,000
Sarah H. Moore	na										
Sarah H. Moore	1/15/2008				6,332	12,663	18,995				\$ 142,965
Sarah H. Moore	1/15/2008							12,663			\$ 142,965
Sarah H. Moore	1/15/2008								63,825	\$ 11.29	\$ 142,968
Caryn Cope Hughes	na										
Caryn Cope Hughes	1/15/2008				6,332	12,663	18,995				\$ 142,965
Caryn Cope Hughes	1/15/2008							12,663			\$ 142,965
Caryn Cope Hughes	1/15/2008								63,825	\$ 11.29	\$ 142,968
Patti G. Hill	na										
Patti G. Hill	1/15/2008				6,332	12,663	18,995				\$ 142,965
Patti G. Hill	1/15/2008							12,663			\$ 142,965
Patti G. Hill	1/15/2008								63,825	\$ 11.29	\$ 142,968
David B. Byrne, Jr.	na										
David B. Byrne, Jr.	1/15/2008				3,838	7,676	11,514				\$ 86,662
David B. Byrne, Jr.	1/15/2008							7,676			\$ 86,662
David B. Byrne, Jr.	1/15/2008								38,690	\$ 11.29	\$ 86,666
Sandra W. Jansky	12/17/2008							75,000			\$ 168,750
Sandra W. Jansky	12/17/2008								50,000	\$ 2.25	\$ 61,000

- (1) Amounts represent MIP definitions for 2008 and are based upon the salary of the Chief Executive Officer as of December 31, 2008. The actual amounts paid under this plan are included in the Summary Compensation Table columns (d) and (g). As Colonial does not maintain an active structured incentive plan for Ms. Moore, Ms. Hill, Mr. Byrne, and Ms. Jansky, no amounts are included herein for the individuals. Ms. Hughes was no longer an employee at December 31, 2008.
- (2) Performance Based Restricted Stock vests based upon BancGroup's earnings per share growth compared to the 2008 Peer Group over the years 2008 through 2010 and can result in a range of possible vesting alternatives including : none, Threshold, Target and Superior which are 0%, 50%, 100% and 150%, respectively, of the shares granted. Results between Threshold, Target and Superior will be pro-rated between those vesting levels.
- (3) The annual expense associated with these awards is also included in the amounts in the Summary Compensation Table (column e) and the shares are included in the Outstanding Equity Awards at Year End Table (column g and h).

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- (4) These awards will vest only upon the attainment of earnings per share targets described in footnote (2) above.
- (5) The 2008 Time Based Restricted Stock grants to Mr. Lowder, Ms. Moore, Ms. Hill and Mr. Byrne will vest on January 15, 2013 provided the executive remains employed by BancGroup until that date. The Time Based Performance Units granted to Ms. Jansky will vest 20% per year over five years beginning one year from the date of grant provided Ms. Jansky remains employed by BancGroup.
- (6) These options vest at the rate of 20% per year beginning on the first anniversary of the date of grant.
- (7) These awards are also discussed in the Summary Compensation Table (column f) and the Outstanding Equity Awards at Year End Table (column c).
- (8) Market value as defined by BancGroup's 2001 Long Term Incentive Plan was the closing price of BancGroup's stock on the date of grant.
- (9) Mr. Lowder's fair market value on grant date for his option grant is lower than his restricted stock award values because BancGroup's 2001 Long Term Incentive Plan prohibits the granting of more than 200,000 options to an employee during a fiscal year.
- (10) As of December 31, 2008, the intrinsic value of the stock options was negative for all executive officers reported herein.



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**COMPENSATION DISCUSSION & ANALYSIS**

Performance Based Restricted Stock with the following characteristics was granted to each executive officer:

Shares will vest based upon the achievement of EPS growth targets relative to the peer group over a three-year performance period covering 2008 through 2010. The 2008 Peer Group is described in the Compensation Discussion & Analysis. The Committee expects to certify the level of EPS growth performance achieved at the beginning of the 2011 fiscal year and vest the Performance Based Restricted Stock grants as appropriate.

Below threshold, Threshold, Target and Superior performance levels are defined and will determine if zero, 50%, 100% or 150%, respectively, of the Performance Based Restricted Stock will vest and be earned by the participants.

To achieve Threshold, Target, or Superior payouts, BancGroup's average compound annual growth of EPS would have to be at the 40th, 50th, and 85th percentile of the peer groups, respectively.

Performance levels that are more than Threshold but below Target or that are more than Target but below Superior performance levels will be pro rated based upon the actual performance achieved.

No shares of Performance Based Restricted Stock will vest if Threshold performance levels are not achieved.

The 2008 Performance Based Restricted Stock was valued at \$11.29 per share, the closing price on the date of grant. For 2008, Time Based Restricted Stock was granted to each executive officer on January 15, 2008. The shares vest on January 15, 2013, provided the executive remains employed by BancGroup until that time.

For 2008, the annual grant of Stock Options to the executives was made on January 15, 2008 and the Stock Options have the following terms:

A grant price of \$11.29 per share, which represents the closing price as of that date.

A Black-Scholes value of \$2.24 per share.

A ten year term.

A vesting schedule at the rate of 20% per year beginning on the first anniversary of the date of grant.

The grants were nonqualified stock options. For 2008, the grant of Stock Options to Ms. Jansky was made on December 17, 2008 and the Stock Options have the following terms:

A grant price of \$2.25 per share, which represents the closing price as of that date.

A Black-Scholes value of \$1.22 per share.

A ten year term.

A vesting schedule at the rate of 20% per year beginning on the first anniversary of the date of grant.

The grants were nonqualified stock options.

**Table of Contents****COMPENSATION DISCUSSION & ANALYSIS****Outstanding Equity Awards at Year-End**

The following table details all outstanding equity grants for the executive officers as of December 31, 2008.

Name	Option Awards					Stock Awards			
	Number of securities underlying unexercised options exercisable	Number of securities underlying unexercised options	Equity incentive plan awards: number of securities underlying unexercised options	Option exercise price	Option expiration date	Number of shares that have not vested	Market value of shares that have not vested	Equity incentive awards: number of shares that have not vested	Equity incentive plan awards: market or payout value of unearned shares that have not vested
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert E. Lowder	100,000			\$ 10.50	12/30/2009				
Robert E. Lowder	200,000			\$ 10.38	3/29/2010				
Robert E. Lowder	120,000	80,000		\$ 24.09	12/22/2015				
Robert E. Lowder	20,324	81,296		\$ 25.81	1/16/2017				
Robert E. Lowder						21,715	\$ 44,950		
Robert E. Lowder								21,715	\$ 44,950
Robert E. Lowder						604	\$ 1,250		
Robert E. Lowder		200,000		\$ 11.29	1/15/2018				
Robert E. Lowder						51,286	\$ 106,162		
Robert E. Lowder								51,286	\$ 106,162
Robert E. Lowder						1,597	\$ 3,306		
Sarah H. Moore	10,000			\$ 10.50	12/30/2009				
Sarah H. Moore	23,800			\$ 9.50	5/16/2010				
Sarah H. Moore	10,000			\$ 12.54	6/18/2011				
Sarah H. Moore	5,000			\$ 14.81					