

HEARTLAND PAYMENT SYSTEMS INC

Form 10-K/A

April 30, 2009

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-K/A**

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-32594

# HEARTLAND PAYMENT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

**Delaware** **22-3755714**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification Number)**  
**90 Nassau Street, Princeton, New Jersey 08542**  
(Address of principal executive offices) (Zip Code)  
**(609) 683-3831**  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	New York Stock Exchange

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

NONE

(title of Class)

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

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

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  YES  NO

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common stock was last sold on the New York Stock Exchange on June 30, 2008 was approximately \$674 million.

As of March 4, 2009, there were 37,442,292 shares of the registrant's common stock, \$0.001 par value, outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

None.

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**Heartland Payment Systems, Inc.**

**Annual Report on Form 10-K/A**

**For the Year Ended December 31, 2008**

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**EXPLANATORY NOTE**

This Amendment No. 1 to Form 10-K on Form 10-K/A (the "Amended Filing") amends the Annual Report on Form 10-K for the year ended December 31, 2008, originally filed on March 16, 2009 (the "Original Filing"), of Heartland Payment Systems, Inc. (the "Company"). The purpose of this amendment is to amend and restate Part III, Items 10 through 14 of the Original Filing, to include information previously omitted from the Original Filing in reliance on General Instruction G to Form 10-K, which provides that registrants may incorporate by reference certain information from a definitive proxy statement filed with the SEC within 120 days after the end of the fiscal year covered by the report.

As a result of the ongoing review of the Company's compensation structure and philosophy by the Company's Compensation Committee as described under the heading New Executive Officer Compensation Arrangements of the Compensation Discussion and Analysis contained in Item 11 of this Amended Filing and the Company's decision to include any material changes to the Company's compensation structure that may result from such review in the Company's proxy statement, the Company's definitive proxy statement will not be filed before April 30, 2009 (i.e., within 120 days after the end of the Company's 2008 fiscal year end) pursuant to Regulation 14A.

In accordance with Rule 12b-15 under the Exchange Act of 1934, as amended, each item of the Original Filing that is amended by this Amended Filing is also restated in its entirety, and this Amended Filing is accompanied by currently dated certifications on Exhibits 31.1 by the Company's Chief Executive Officer and Exhibits 31.2 by the Company's Chief Financial Officer. The Original Filing was amended to: (i) delete the reference on the cover of the Original Filing to the incorporation by reference of the registrant's definitive proxy statement into Part III of the Annual Report on Form 10-K, (ii) revise Part III, Items 10 through 14 of our Original Filing to include information previously omitted from the Original Filing, and (iii) revise the Exhibit Index to reflect the filing of the new certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of March 16, 2009, the date of the filing of the Original Filing, and other than expressly indicated in this Amended Filing, we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to March 16, 2009. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and our other reports filed with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings.

**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE  
INFORMATION CONCERNING DIRECTORS**

Information regarding each Director is set forth in the following table:

Name	Age	Director Since	Position	Term Expires at the Annual Meeting Held In The Year
Robert O. Carr	63	2000	Chairman and Chief Executive Officer	2009
Mitchell L. Hollin	46	2001	Director	2009
Robert H. Niehaus	53	2001	Director	2009
Marc J. Ostro, Ph.D	59	2002	Director	2009
Jonathan J. Palmer	65	2003	Director	2009
George F. Raymond	71	2004	Director	2009
Richard W. Vague	53	2007	Director	2009

**Robert O. Carr**, age 63, has served as Chairman of our Board of Directors and as our Chief Executive Officer since our inception in October 2000. Mr. Carr had been Chairman of the Members Committee and Chief Executive Officer of our predecessor, Heartland Payment Systems LLC, from March 1997 to October 2000 when the merger of Heartland Payment Systems LLC into our Company became effective. Mr. Carr co-founded Heartland Payment Systems LLC with Heartland Bank in March 1997. Prior to founding Heartland, Mr. Carr worked in the payments and software development industries for 25 years. Mr. Carr received a B.S. and M.S. in Mathematics and Computer Science from the University of Illinois.

**Mitchell L. Hollin**, age 46, has served as one of our Directors since October 2001. Mr. Hollin is a Partner of LLR Capital, L.P., which is the general partner of LLR Equity Partners, L.P., an independent private equity firm, which he joined in August 2000. From 1994 until joining LLR Capital, L.P., Mr. Hollin was a founder and Managing Director of Advanta Partners LP, a private equity firm affiliated with Advanta Corporation. Prior to his involvement with Advanta Partners LP, Mr. Hollin was a Vice President at Cedar Point Partners LP, a middle market buyout firm and before that an Associate at Patricof & Co. Ventures, Inc., an international venture capital firm. Mr. Hollin is a member of the board of directors of various private companies. Mr. Hollin received a B.S. in Economics and an M.B.A. from the Wharton School of the University of Pennsylvania.

**Robert H. Niehaus**, age 53, has served as one of our Directors since October 2001. Mr. Niehaus is a Managing Director of Greenhill & Co., Inc. and serves as the Chairman and a Senior Member of GCP 2000, LLC and the Chairman and a Senior Member of Greenhill Capital Partners, LLC, which control the general partners of Greenhill Capital Partners. Mr. Niehaus has been a member of Greenhill & Co.'s Management Committee since its formation in January 2004. Mr. Niehaus joined Greenhill & Co. in January 2000 as a Managing Director to begin the formation of Greenhill Capital Partners. Prior to joining Greenhill & Co., Mr. Niehaus spent 17 years at Morgan Stanley & Co., where he was a Managing Director in the merchant banking department from 1990 to 1999. Mr. Niehaus was vice chairman and a director of the Morgan Stanley Leveraged Equity Fund II, L.P., a private equity investment fund, from 1992 to 1999, and was Vice Chairman and a Director of Morgan Stanley Capital Partners III, L.P., a private equity fund, from 1994 to 1999. Mr. Niehaus was also the Chief Operating Officer of Morgan Stanley's merchant banking department from 1996 to 1998. Mr. Niehaus is a director of Exco Holdings, Inc., an oil and gas company, Global Signal Inc., a company that owns and manages wireless communications towers and other communications sites, and various private companies. Mr. Niehaus received a B.A. in International Affairs from the Woodrow Wilson School at Princeton University and an M.B.A. from the Harvard Business School.

**Marc J. Ostro, Ph.D.**, age 59, has served as one of our Directors since October 2002. Since February 17, 2006, Dr. Ostro has served as a General Partner in Devon Park Bioventures, a venture capital fund targeting investments in therapeutics companies and, in certain cases, medical device, diagnostic and drug discovery technology companies.



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Previously, from January 2002 to February 2006, Dr. Ostro was a partner at TL Ventures, L.P., a Pennsylvania-based venture capital firm. Immediately prior to that, Dr. Ostro was a private consultant to the biotechnology industry since May 2000. From November 1997 to May 2000, he was Senior Managing Director and Group Leader for KPMG Life Science Corporate Finance (Mergers and Acquisitions). In 1981, Dr. Ostro co-founded The Liposome Company, a biotechnology company. Dr. Ostro received a B.S. in Biology from Lehigh University, a Ph.D. in Biochemistry from Syracuse University, and was a Postdoctoral Fellow and Assistant Professor at the University of Illinois Medical School.

**Jonathan J. Palmer**, age 65, has served as one of our Directors since November 2003. Since November 2005, Mr. Palmer has served as President and Chief Executive Officer of FSV Payment Systems, a leading prepaid debit issuer and processor. From 1999 to October 2003, Mr. Palmer served as President and Chief Executive Officer of Vital Processing Services. From 1996 to 1999, he served as President and CEO of Wellspring Resources, an outsourced benefits administrator. From 1990 to 1996, Mr. Palmer was the Chief Retail Banking and Technology Executive at Barnett Banks, where he created Barnett Technologies, an outsourced services firm offering a wide range of back office functions for banks. Prior to joining Barnett Banks, he was an Executive Vice President with Shearson Lehman Brothers, and held a number of roles at Fidelity Bank in Philadelphia, succeeding to Vice Chairman in the late 1980s. Mr. Palmer received a B.S. in Applied Mathematics from LaSalle University, and an M.B.A. from the Wharton School of the University of Pennsylvania.

**George F. Raymond**, age 71, has served as one of our Directors since March 2004. Mr. Raymond has served as President of Buckland Corporation, a consulting company to the information technology industry, since 1989. Previously, Mr. Raymond was Chief Executive Officer of Automatic Business Centers, Inc., a payroll processing company he founded in 1972 and sold to Automatic Data Processing Corporation in 1989. Mr. Raymond is a director of Analytical Graphics, Inc., a privately held software solutions provider, and NationsHealth, a health care provider. Mr. Raymond received a B.B.A. in Accounting from the University of Massachusetts and qualified as a C.P.A. in Pennsylvania.

**Richard W. Vague**, age 53, has served as one of our Directors since May 2007. Since 2007, Mr. Vague has served as Chief Executive Officer and Co-Founder of Energy Plus, a Philadelphia-based, progressive, independent Energy Service Company (ESCO). Immediately prior to that, Mr. Vague served as the Chief Executive Officer of Barclays Bank Delaware, a financial institution and credit card issuer, since December 2004. Previously, Mr. Vague was Chief Executive Officer of Juniper Financial, a direct consumer credit card bank, since he co-founded that company in 2000. From 1985 to 2000, Mr. Vague was the co-founder, Chairman and Chief Executive Officer of First USA, and Chairman of Paymentech, the merchant processing subsidiary of First USA. In 1997, Bank One acquired First USA. Mr. Vague serves as a Director of Barclays Bank Delaware. Mr. Vague received a B.S. in communication from the University of Texas at Austin.

There are no family relationships among any of the Company's directors or executive officers.

### **Audit Committee.**

Our Audit Committee is solely responsible for the appointment of and reviewing fee arrangements with our independent accountants, and approving any non-audit services by our independent accountants. (See the section entitled, "Principal Accountant Fees and Services" below in Item 14). Our Audit Committee reviews and monitors our internal accounting procedures and reviews the scope and results of the annual audit and other services provided by our independent accountants. Our Audit Committee currently consists of Messrs. Palmer and Raymond and Dr. Ostro, each of whom is an independent director under current New York Stock Exchange ( NYSE ) rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act ), and is chaired by Mr. Raymond. We believe that each of the members of the Audit Committee is financially sophisticated and is able to read and understand our consolidated financial statements. Our Board of Directors has determined that Mr. Raymond is an Audit Committee financial expert as defined in Item 407(d)(5) of Regulation S-K. Our Audit Committee held four (4) meetings during 2008.



**Table of Contents****INFORMATION CONCERNING EXECUTIVE OFFICERS**

Information regarding each of our executive officers is set forth in the following table:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Robert O. Carr	63	Chairman of the Board and Chief Executive Officer
Robert H.B. Baldwin, Jr.	54	President and Chief Financial Officer
Sanford C. Brown	37	Chief Sales Officer
Charles H.N. Kallenbach	45	General Counsel, Chief Legal Officer and Secretary
Thomas M. Sheridan	63	Chief Portfolio Officer

**Robert O. Carr**, age 63, has served as Chairman of our Board of Directors and as our Chief Executive Officer since our inception in October 2000. Mr. Carr had been Chairman of the Members Committee and Chief Executive Officer of our predecessor, Heartland Payment Systems LLC, from March 1997 to October 2000 when the merger of Heartland Payment Systems LLC into our Company became effective. Mr. Carr co-founded Heartland Payment Systems LLC with Heartland Bank in March 1997. Prior to founding Heartland, Mr. Carr worked in the payments and software development industries for 25 years. Mr. Carr received a B.S. and M.S. in Mathematics and Computer Science from the University of Illinois.

**Robert H.B. Baldwin, Jr.**, age 54, has served as our Chief Financial Officer since our inception in October 2000 and has served as our President since October 2007. Mr. Baldwin had been Chief Financial Officer and Secretary of our predecessor, Heartland Payment Systems LLC, from May 2000 to October 2000. From July 1998 to May 2000, Mr. Baldwin served as the Chief Financial Officer of COMFORCE Corp., a publicly-traded staffing company. From 1985 through July 1998, Mr. Baldwin was a Managing Director in Smith Barney's Financial Institutions advisory business and from 1980 to 1985, he was a Vice President with Citicorp. Mr. Baldwin received a B.A. in History from Princeton University and an M.B.A. from Stanford University.

**Sanford C. Brown**, age 37, has served as our Chief Sales Officer since January 2, 2006. Prior to accepting this role, Mr. Brown served as our Senior Vice President of Sales Management and was responsible for our sales infrastructure, sales policy, and formulating business development strategies. From late 2000 to 2003 Mr. Brown, served as our Senior Vice President of Hospitality Marketing and was responsible for strategies to develop and acquire relationships with trade associations nationally. Mr. Brown has served in a variety of other sales and sales management positions since joining our predecessor in 1997, including District, Division, Regional and Vice President positions. Mr. Brown attended Northern Arizona University where he studied Marketing.

**Charles H.N. Kallenbach**, age 45, has served as our General Counsel and Chief Legal Officer since January 2, 2007 and our Secretary since January 17, 2007. From February 2004 through December 2006, Mr. Kallenbach was senior Vice President, Legal and Regulatory and Secretary for SunCom Wireless Holdings Inc., an NYSE-listed wireless communications company that was acquired by T-Mobile. From September 2001 to January 2004, Mr. Kallenbach was Vice President and General Counsel for Eureka Broadband Corporation. From January 2000 to September 2001, he was Vice President, General Counsel and Secretary, as well as Vice President of Human Resources for 2<sup>nd</sup> Century Communications. From April 1996 to January 2000, Mr. Kallenbach was Vice President Legal and Regulatory Affairs for e.spire Communications, Inc. Prior to that, he practiced law with Jones Day and Swidler & Berlin from November 1990 to April 1996. He also served as Legislative Assistant to United States Senator Arlen Specter from June 1985 to July 1987. Mr. Kallenbach holds a Bachelor of Arts from the University of Pennsylvania and a Juris Doctor from the New York University School of Law.

**Thomas M. Sheridan**, age 63, has served as our Chief Portfolio Officer since December 2004. From 1998 to December 2004, Mr. Sheridan was Senior Vice President at Nova Information Systems, the payments processing division of US Bancorp, and was responsible for pricing and portfolio management. From 1997 to 1998, Mr. Sheridan was Vice President, Credit, Security and Settlement Operations, at PMT Services, which was acquired by Nova in 1998. From 1991 to 1997, Mr. Sheridan consulted for a number of companies in the payments industry, specializing in acquisitions, integration and portfolio management. From 1989 to 1991, he was Chief Financial Officer for National Data Corporation's payments division, now called Global Payments. Prior to joining National Data Corporation, he served as a Vice President at First Interstate Bank, a Senior Vice President in Citibank's credit

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card operations, and in the finance department of Abbott Laboratories, a health care company. Mr. Sheridan received a B.S. in Chemical Engineering from the University of Illinois and an M.B.A. in Finance from Northwestern University.

## **CODE OF ETHICS**

We have adopted a Code of Ethics for Senior Financial Officers that applies to our Chief Executive Officer (i.e., principal executive officer), Chief Financial Officer (i.e., principal financial officer), principal accounting officer, controller and any other person performing similar functions. We believe our Code of Ethics complies with the requirements of Item 406 of Regulation S-K and a copy of our Code of Ethics is available on the Corporate Governance page of our website at [www.heartlandpaymentsystems.com](http://www.heartlandpaymentsystems.com).

## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Under Section 16(a) of the Exchange Act and SEC rules, the Company's directors, executive officers and beneficial owners of more than 10% of any class of equity security are required to file periodic reports of their ownership, and changes in that ownership, with the SEC. Based solely on our review of copies of these reports and representations of such reporting persons, the Company believes that during the year ended December 31, 2008, such SEC filing requirements were satisfied, except for: (i) a late filing made by Robert O. Carr who inadvertently filed a late Form 4 on June 3, 2008 reporting a sale of stock by one of his children's trusts on May 20, 2008, (ii) a late filing by Greenhill Capital Partners, LLC and its affiliated funds who inadvertently filed a late Form 4 on June 19, 2008 reporting a distribution of the Company's stock held by Greenhill Capital Partners, LLC and its affiliated funds to its limited partners on a pro rata basis on June 2, 2008, (iii) a late filing made by Robert H. Niehaus who inadvertently filed a late Form 4 on June 19, 2008 reporting his receipt of his pro rata share of the distribution by Greenhill Capital Partners, LLC and its affiliated funds on June 2, 2008, (iv) a late filing made by Robert H. Niehaus who inadvertently failed to reflect his correct stock ownership after the pro rata distribution by Greenhill Capital Partners, LLC and its affiliated funds on June 2, 2008 and corrected it in an amended Form 4 filing on August 14, 2008, (v) late filings made by Mitchell L. Hollin, Robert H. Niehaus, Marc J. Ostro, Ph.D, and Jonathan J. Palmer who each inadvertently filed a late Form 4 on November 18, 2008 reporting a stock option grant received on November 5, 2008, and (vi) late filings made by George F. Raymond and Richard W. Vague who each inadvertently filed a late Form 4 on November 19, 2008 reporting a stock option grant received on November 5, 2008.

## **ITEM 11. EXECUTIVE COMPENSATION COMPENSATION DISCUSSION AND ANALYSIS**

This compensation discussion and analysis discusses the principles and objectives underlying our executive compensation policies and the most significant factors relevant to an analysis of these policies and provides information about the fiscal year 2008 compensation programs for our named executive officers.

### ***Compensation Objectives***

The primary objective of our compensation program is to provide our named executive officers with strong incentives to drive our growth and profitability, while achieving a successful balance between near-term performance and our long-term success. The Board of Directors and the Compensation Committee observe that while our stock price is not controllable by our management, an incentive structure that encourages superior short-term performance (relative to the industry, and the overall equity market) while also focusing attention on building for long-term growth is the most likely to result in our stock outperforming the equity markets such as the Dow Jones Industrial Average and the S&P 500 over both the near- and long-term. Ultimately, it is that outperformance in the stock (measured as the total return, inclusive of dividends) that is most important to our stockholders and the compensation objectives are thus intended to focus management on that outcome.

The compensation program adopted by the Board of Directors and the Compensation Committee is designed to align individual compensation with our growth and profitability, our near-term performance relative to our industry, our long term success

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in creating stockholder value, and with the market for our executive talent and securities investment. This is done using a mix of at risk annual short-term incentive cash compensation balanced by performance based long-term equity incentives.

The factors we consider in setting executive compensation levels are:

1. Performance (short-term and long-term results against our budgets and established performance objectives);
2. Overall cost (relative to budget and our overall financial position);
3. Relative internal value of positions;
4. Regulatory constraints and guidelines (for example, Internal Revenue Code Section 162(m)); and
5. Compensation data regarding an executive's historical compensation compared to the labor market.

### *Elements of Compensation*

The elements of our compensation program include the following:

wages (salary);

annual performance-based incentive cash compensation;

stock incentive programs (stock options, restricted stock units, etc.); and

severance arrangements.

We choose to pay each element, in large part, for the following reasons:

**Wages:** Salary provides a comparatively small amount of guaranteed cash compensation to secure the services of our executive talent.

**Annual Performance-Based Compensation:** Our named executive officers are eligible to receive annual performance-based cash compensation in order to reward and incentivize short-term financial and operating performance of the Company. Such rewards may be unrelated to share price performance for the applicable period (either absolute or relative), because the equity markets' performance on a short-term basis can easily diverge significantly from our actual financial and operating performance.

**Stock Incentive Programs:** Providing named executive officers with the opportunity to create significant wealth through stock ownership is viewed as a powerful tool to attract and retain highly qualified executives and achieve the strong long-term stock price performance. Long-term stock incentives help align our executives' interests with our stockholders' interests and directly motivate executive officers to maximize long-term stockholder value.

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**Severance:** Named executive officers were provided with severance packages in consideration for delivering to us a non-competition/non-solicitation agreement. We believe the severance package enhances the enforceability of the non-competition/non-solicitation agreement. The Board of Directors believes that such agreements serve to reduce the likelihood that competitors will seek to hire our named executive officers who have significant knowledge about our operations and short- and long-term strategies. New named executive officers may be offered a severance package to the extent that it is a necessary part of the employment offer, recognizing that the new executive is joining a team with members who have such a package. In addition, we believe the severance arrangements provide a valuable retention tool for our named executive officers.

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**Other Benefits:** The Board of Directors has concluded that named executive officers should not be offered any special retirement plans, and thus they are offered only participation in our standard 401(K) plan. Named executive officers participation in the long-term appreciation in the value of our stock is expected to provide significant retirement value. Named executive officers also participate in various medical, dental, life, and disability programs offered by the Company to employees at large.

**Determining Executive Compensation**

It is the responsibility of the Compensation Committee to administer our compensation programs and practices to ensure that they are in line with our compensation objectives. For the fiscal year 2008, the Compensation Committee engaged the services of an independent compensation consulting firm, Frederic W. Cook & Co., Inc. (FW Cook) to review our compensation structure. FW Cook reports to the Compensation Committee and does not perform any other work for the Company besides advising on executive compensation matters. The Compensation Committee, with FW Cook, developed a peer group of companies, identifying other publicly-traded U.S.-based companies in the Software and Services S&P GICS group with a similar size and market value. Based on these objective factors, the peer group of companies used for fiscal year 2008 market comparisons were:

<i>ACI Worldwide</i>	<i>Axiom</i>	<i>Convergys</i>
<i>CSG Systems</i>	<i>Cybersource</i>	<i>DealerTrak Holdings</i>
<i>Efunds</i>	<i>Euronet Worldwide</i>	<i>Global Cash Access</i>
<i>Global Payments</i>	<i>Jack Henry</i>	<i>Mantech International</i>
<i>Maximus</i>	<i>Moneygram International</i>	<i>Sykes Enterprises</i>
<i>TNS</i>	<i>Ultimate Software</i>	<i>Verifone Holdings</i>
	<i>Wright Express</i>	

While FW Cook compared our compensation levels and practices to this peer group, the market analysis was not a significant factor in setting the compensation amounts for our named executive officers in 2008 or creating incentive designs. In general, peer group comparisons showed that annual compensation for our named executive officers was below the median relative to the peer group.

The following are the elements of 2008 compensation as set by the Compensation Committee:

**Wages:** Wage increases are generally based on the executive's performance within specific areas of accountability as well as market competitiveness and budget considerations. Executive wages are set at levels that are proportionately higher than other managers. The purpose is to recognize roles and managerial responsibilities and to attract and retain highly qualified professionals in these positions. Our Chief Executive Officer, Robert O. Carr, reviews the performance of the named executive officers that report to him. Mr. Carr also recommends the wages and annual cash bonuses for the other named executive officers to the Compensation Committee. The Compensation Committee reviews those recommendations and, with any modifications it considers appropriate, approves the wages. Executives' wages are reviewed annually. The Compensation Committee independently assesses the performance of Mr. Carr and sets the wages and bonus amounts for Mr. Carr. For the 2008 fiscal year, the Compensation Committee approved wage increases for our named executive officers as set forth in the table below:

**Annualized Wages:**

<b>Executive</b>	<b>2007 Actual Wages</b>	<b>2008 Actual Wages</b>	<b>2008 Percent Increase</b>
Robert O. Carr	\$ 350,000	\$ 450,000	28.6%
Robert H.B. Baldwin, Jr.	\$ 276,056	\$ 350,000	26.8%
Charles H.N. Kallenbach	\$ 190,000	\$ 250,000	31.6%
Sanford C. Brown	\$ 476,425	\$ 346,405	(27.3)%(a)
Thomas M. Sheridan	\$ 225,896	\$ 232,320	2.8%

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- (a) Mr. Brown's wages were commission based for 2007 and for 2008, but were converted to salary for 2009.

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**Annual Performance-Based Compensation:** We believe that some portion of annual cash compensation for our named executive officers should be at risk, i.e. contingent upon successful company and individual performance. Therefore, annual performance-based compensation for named executive officers is tied to overall company performance, extraordinary individual performance, or both. For most executives, the target bonus is set at 35-50% of their annual wages, and the actual pay-out is determined in the discretion of the CEO and the Compensation Committee based on our financial operating performance and the executive's individual results (except that the CEO did not determine his own 2008 bonus award). Exceptional performance may result in payment of an annual bonus to an executive that exceeds the executive's target. The final determination of the amount of an executive's annual performance bonus is made in the discretion of the Compensation Committee, however, the Company considers individual success using more specific, objective criteria, such as sales results, when those factors are relevant. The Compensation Committee aims to pay bonuses to executives only upon achievement of attainable but ambitious performance in order to provide for a meaningful risk that payments may not be made to the executives. Annual bonuses were in the form of cash during 2008.

The table below sets forth the target bonus and 2008 annual performance based compensation earned by each named executive officer:

**Annual Incentive Bonus Information as of December 31, 2008**

Executive	2007 Bonus	2008 Target Bonus	2008 Bonus
Robert O. Carr	\$ 109,197	\$ 250,000	\$ 250,000
Robert H.B. Baldwin, Jr.	\$ 81,117	\$ 175,000	\$ 175,000
Charles H.N. Kallenbach	\$ 95,000	\$ 125,000	\$ 125,000
Sanford C. Brown	\$ (a)	\$ (a)	\$ (a)
Thomas M. Sheridan	\$ 36,532	\$ 58,080	\$ 58,080

(a) Mr. Brown's compensation was commission based for 2007 and 2008 and therefore all of his cash compensation was in the form of wages in 2007 and 2008.

**Stock Incentive Programs:** Equity based compensation is an integral part of our overall compensation program. We believe that stock options effectively balance the objective of focusing our executives on increasing long-term value to our stockholders with our objectives of building real ownership, equity value and retention for the executives. These stock-based incentives, which in recent years have consisted solely of stock option grants, are based on various factors primarily relating to the responsibilities of the individual officer or employee, their past performance, anticipated future contributions and prior option grants. In general, the Compensation Committee bases its decisions to grant stock-based incentives on recommendations of our Chief Executive Officer and the Compensation Committee's analysis of relevant compensation information, with the intention of keeping the executives' overall compensation, including the equity component of that compensation, at a competitive level in line with our budgets for the executive's position and reflective of the executive's contribution to the company's performance. The Compensation Committee also considers the number of shares of common stock outstanding, the number of shares of common stock authorized for issuance under its equity compensation plans, the number and value at various stock prices of options and shares held by the executive officer for whom an award is being considered and the other elements of the officer's compensation, as well as our compensation objectives and policies described above. As with the determination of base salaries and short term incentive payments, the Compensation Committee exercises subjective judgment and discretion in view of the above criteria.

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Awards to named executive officers pursuant to the 2008 Equity Incentive Plan are made annually and the grant is usually made on the second full trading day after the most recent financial results are announced, with the price of the grant set as of the close of trading on that second day.

*2008 Performance-Based Stock Options.* In the third quarter of 2008, our Board of Directors approved a performance-based stock option program under our 2008 Equity Incentive Plan. The purpose of this award was to reward long-term operating success and also the subsequent increase in stockholder value that we expect such performance would create. Under this program, we granted 2.5 million performance-based stock options to our employees. These stock options were granted to those employees who the Board of Directors determined could have significant impact on successfully integrating the Network Services business, which was acquired in May 2008, and effectively executing our growth plan. These stock options have a five-year term and will vest in equal amounts in 2011, 2012 and 2013 only if over the term of the stock options, both of the following performance conditions are achieved:

Consolidated net revenue grows at a compound annual rate of at least 15%; and

Fully diluted EPS grows at a compound annual rate of at least 25%

We believe that these performance goals will be difficult for the company to attain as they represent growth well beyond what our competitors in the industry normally achieve and provide our executives with significant incentives to drive the long-term growth of our company. For information regarding 2008 performance-based stock option awards granted to our named executive officers on August 6, 2008, see Grants of Plan-Based Awards.

*New Executive Officer Compensation Arrangements.* In light of the challenges facing our company resulting from the previously announced security breach and macro economic conditions and the significant reduction of equity ownership suffered by our CEO as a result of previously announced forced sales of all of his shares of our common stock, the Compensation Committee has recently retained FW Cook to review and recommend changes to our compensation structure and philosophy. We expect that the review conducted by FW Cook, and the Compensation Committee's decisions resulting from this review, will be completed during the first half of 2009. It is expected that FW Cook's review will lead to changes in the manner in which we award, and the amounts of, cash and equity compensation for our executive officers.

**Severance:** We have set potential severance payments to our named executive officers at one year's continued payment of wages plus a pro rated bonus in order to run concurrently with our named executive officers' covenants not to compete with us for 12 months following termination of their employment. A condition to our providing such severance payments is our receipt from the executive officer of a release from future claims against the Company. These severance arrangements provide incentive for our executives to comply with their covenants and grant us the ability to suspend payment if an executive has breached these covenants. Pursuant to the above-described severance arrangements, Mr. Carr would have an estimated severance payout of \$573,297, Mr. Brown would have an estimated severance payout of \$396,495, Mr. Baldwin would have an estimated severance payout of \$448,297, Mr. Sheridan would have an estimated severance payout of \$301,197, and Mr. Kallenbach would have an estimated severance payout of \$323,297.

## **Stock Ownership Guidelines**

The Company has established an expectation that senior executives will maintain ownership of at least 50% of the net after-tax stock and/or stock options they have been granted (on a cumulative basis) to the first \$10 million of value, and 75% of any value in excess of \$10 million, until such time as their employment with us terminates. These ownership guidelines are designed to further align executive ownership, long-term strategic thinking and compensation programs to our performance and the interests of our stockholders. Our CEO has historically complied with these stock ownership guidelines. However, in the first quarter of 2009, all of the outstanding shares of common stock owned by our CEO were sold in previously announced forced sales. This has caused our CEO to not currently be in compliance with these stock ownership guidelines. Further, while the Company intends to maintain a guideline ownership requirement for officers, the structure and amounts may change in the future.



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In order for this compensation approach to be effective in generating both short- and long-term value to our stockholders, the Board of Directors recognizes the critical role that the operating budget, and our performance relative to that budget, plays. Thus, the Board of Directors, in its review of the annual expense budget, expects to have good visibility as to our profitability during the coming year, and can analyze those results against its own, and the equity market's, expectations for that profit performance. Then, after the year is complete, if results fall short of those budgeted levels, the variable cash compensation element will likely be relatively modest, and a significant bonus would be paid only if quantifiably superior cost management allowed us to exceed our budgeted results. At the same time, named executive officers have a strong incentive to ensure that the appropriate amount of long-term capital investments in infrastructure are made, as their most significant wealth opportunity arises from their stock ownership, and recognition that long-term, the stock will not perform unless those ongoing infrastructure investments are made.

For our financial statements, cash compensation is expensed and for our income tax returns, the compensation is deductible. From the perspective of the named executive officers, such cash compensation is taxable as appropriate for that individual. For equity-based compensation, we do not provide named executive officers with immediately vesting options although we do provide our Directors with immediately vesting options in order to focus them on their long-term contributions to the Company and on the long-term appreciation in the value of the Company's stock because such immediately vesting options are expensed entirely on our financial statements when granted. For future vesting options granted to named executive officers, the fair value of such grants is expensed over the vesting period. We provide non-qualified stock options in our grants to named executive officers. Non-qualified stock options provide us with an accounting tax benefit as the fair value of the options are deductible for the Company. Non-qualified stock options provide us with a tax return benefit when the named executive officer exercises such non-qualified stock options. For the named executive officers, non-qualified stock options are generally not taxable until the exercise of such option. The tax impacts of exercises by named executive officers match the tax benefit to us of the exercise. The accounting and tax treatment of compensation pursuant to Internal Revenue Code Section 162(m), FAS 123R, and other applicable rules, is a factor in determining the amounts of compensation for named executive officers.

**Summary Compensation Table**

The following table shows the compensation paid or to be paid by us, and certain other compensation paid or accrued, during the fiscal years ended December 31, 2008, 2007 and 2006 to our Chief Executive Officer, Chief Financial Officer and each of our three other most highly compensated executive officers, together the Named Executive Officers.

Name and Principal Position	Year	Wages (\$)	Option Awards (\$)	Non-Equity Incentive Plan	All Other	Total
				Compensation (\$)(4)	Compensation (\$)	Compensation (\$)
Robert O. Carr	2008	\$ 450,000		\$ 250,000	\$ 4,718	\$ 704,718
Chairman and Chief Executive Officer(1)	2007	\$ 350,000		\$ 109,197		\$ 459,197
	2006	\$ 350,000				\$ 350,000
Robert H.B. Baldwin, Jr.	2008	\$ 350,000	\$ 28,018(3)	\$ 175,000	\$ 4,402	\$ 557,420
President and Chief Financial Officer(1)	2007	\$ 276,056	\$ 65,177(3)	\$ 81,117		\$ 422,350
	2006	\$ 260,001	\$ 81,450(3)			\$ 341,451
Charles H.N. Kallenbach	2008	\$ 250,000	\$ 115,938(3)	\$ 125,000	\$ 3,750	\$ 494,688
General Counsel and Chief Legal Officer(1,2)	2007	\$ 190,000	\$ 161,024(3)	\$ 95,000		\$ 446,024
Sanford C. Brown	2008	\$ 346,405	\$ 76,327(3)			\$ 384,885
Chief Sales Officer	2007	\$ 476,425	\$ 69,334(3)			\$ 545,759
	2006	\$ 219,086	\$ 23,112(3)	\$ 200,000		\$ 442,198
Thomas M. Sheridan	2008	\$ 232,320	\$ 17,970(3)	\$ 58,080	\$ 3,750	\$ 312,120
Chief Portfolio Officer(1,2)	2007	\$ 225,896	\$ 108,070(3)	\$ 36,532	\$ 7,130	\$ 377,628
	2006	\$ 208,000	\$ 215,333(3)		\$ 12,000	\$ 435,333

(1) Mr. Carr, Mr. Baldwin, Mr. Sheridan and Mr. Kallenbach also received \$3,750 in 2008 as a 401(K) Plan matching contribution, which is included in column entitled All Other Compensation above.



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- (2) Mr. Kallenbach was named our General Counsel and Chief Legal Officer on January 2, 2007.
- (3) Represents the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2008 in accordance with SFAS 123R and, accordingly, may include amounts from options granted in prior years. See the information appearing in footnote 14 to our consolidated financial statements included as part of our Annual Report on Form 10-K for the year ended December 31, 2008 for certain assumptions made in the valuation of options granted in the years ended December 31, 2007 and 2006.
- (4) Represents annual cash incentive compensation with respect to 2008. See Annual Performance Based Compensation for an explanation of these payments.

**Grants of Plan-Based Awards**

The following tables list grants of plan-based awards made to our Named Executive Officers during 2008 and the related total fair value of these awards. Named Executive Officers did not provide cash consideration for the listed awards.

**Name**

**Grant Date**