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First Business Financial Services, Inc.
Form DEF 14A
March 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. ____)

Filed by the Registrant [X]
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))
- [X] Definitive Proxy Statement [] Definitive Additional Materials
- [] Soliciting Material Pursuant to 17 CFR 240.14a-12

FIRST BUSINESS FINANCIAL SERVICES, INC.
(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required.
- [] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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 - 2) Aggregate number of securities to which transaction applies:
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 - 4) Proposed maximum aggregate value of transaction:
 - 5) Total fee paid:
- [] Fee paid previously with preliminary materials.
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- 1) Amount Previously Paid:

- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

FIRST BUSINESS FINANCIAL SERVICES, INC.

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 7, 2007**

To the Shareholders of
First Business Financial Services, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of First Business Financial Services, Inc. (the Company) will be held on Monday, May 7, 2007, at 6:00 P.M., local time, at the Fluno Center for Executive Education located at 601 University Avenue, Madison, Wisconsin 53715, for the following purposes:

1. To elect three Class III directors to hold office until the 2010 annual meeting of shareholders and until their successors are duly elected and qualified.
2. To consider and act upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on March 5, 2007 has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof.

A proxy for the meeting and a proxy statement are enclosed herewith.

By Order of the Board of Directors
FIRST BUSINESS FINANCIAL SERVICES, INC.

Margaret M. Bomber
Corporate Secretary

Madison, Wisconsin
March 30, 2007

YOUR VOTE IS IMPORTANT NO MATTER HOW LARGE OR SMALL YOUR HOLDINGS MAY BE. TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE DATE THE ENCLOSED PROXY, WHICH IS SOLICITED BY THE BOARD OF DIRECTORS, SIGN EXACTLY AS YOUR NAME APPEARS THEREON AND RETURN IMMEDIATELY.

IF YOU PREFER, YOU MAY VOTE BY TELEPHONE OR VIA THE INTERNET. INSTRUCTIONS ARE INCLUDED ON THE PROXY CARD.

FIRST BUSINESS FINANCIAL SERVICES, INC.

**401 Charmany Drive
Madison, Wisconsin 53719**

PROXY STATEMENT
For
ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 7, 2007

This proxy statement is being furnished to shareholders by the Board of Directors (the Board) of First Business Financial Services, Inc. (the Company) beginning on or about April 3, 2007 in connection with a solicitation of proxies by the Board for use at the annual meeting of shareholders to be held on Monday, May 7, 2007, at 6:00 P.M., local time, at the Fluno Center for Executive Education at 601 University Avenue, Madison Wisconsin 53715, and all adjournments or postponements thereof (the Annual Meeting) for the purposes set forth in the attached Notice of Annual Meeting of Shareholders.

Execution of a proxy given in response to this solicitation will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Presence at the Annual Meeting of a shareholder who has signed a proxy does not in itself revoke a proxy. Any shareholder giving a proxy may revoke it at any time before it is exercised by giving notice thereof to the Company in writing or at the annual meeting.

A proxy, in the enclosed form, that is properly executed, duly returned to the Company and not revoked, will be voted in accordance with the instructions contained in the proxy. The shares represented by executed but unmarked proxies will be voted FOR the three persons nominated for election as directors referred to in the proxy statement, and on such other business or matters which may properly come before the Annual Meeting in accordance with the best judgment of the persons named as proxies in the enclosed form of proxy. Other than the election of three directors, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of the Company's common stock, par value \$0.01 per share (the Common Stock), at the close of business on March 5, 2007 are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote 2,497,161 shares of Common Stock, each of which is entitled to one vote per share.

ELECTION OF DIRECTORS

The Company's By-Laws provide that the directors shall be divided into three classes, with staggered terms of three years each. At the Annual Meeting, the shareholders will elect three directors to hold office until the 2010 annual meeting of shareholders and until their successors are duly elected and qualified. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as directors of the three persons named as nominees herein. The Board has no reason to believe that the listed nominees will be unable or unwilling to serve as directors if elected. However, in the event that any nominee should be unable to serve or for good cause will not serve, the shares represented by proxies received will be voted for another nominee selected by the Board. Each director will be elected by a plurality of the votes cast at the Annual Meeting (assuming a quorum is present). Consequently, any shares not voted at the Annual Meeting, whether due to abstentions, broker non-votes or otherwise, will have no impact on the election of the directors. Votes will be tabulated by an inspector of elections appointed by the Board.

The following sets forth certain information, as of March 1, 2007, about the Board's nominees for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting.

Nominees for Election at the Annual Meeting

Terms expiring at the 2010 Annual Meeting

Jan A. Eddy, age 57, has served as a Director of the Company since October, 2003 and is a member of the Audit, Compensation, and Corporate Governance & Nominating Committees. She also serves as the Chairperson of the Board of Directors of First Business Bank, and sits on the Governance Committee. She has served as a Director of First Business Bank since April, 1990. Ms. Eddy served as President and Chief Executive Officer of Wingra Technologies, a designer and distributor of software, from October, 1991 to January, 2005. Quest Software purchased Wingra Technologies in January, 2005. Ms. Eddy held the position of Business Development Executive at Quest Software from January, 2005 to October, 2005.

John M. Silseth, age 51, has served as a Director of the Company since October, 2006 and is a member of the Audit Committee. He also serves as Chairman of the Board of Directors of First Business Bank-Milwaukee and sits on the Directors Loan Committee. Mr. Silseth has been

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President of Antietam LLC, a private investment firm located in Milwaukee, Wisconsin, since 1986. He also serves on the Board of Directors of various Antietam portfolio companies, other privately held companies, and charitable organizations.

Dean W. Voeks, age 64, has served as a Director of the Company since April, 1996 and is Chair of the Audit Committee. From January, 1991 until October, 2001, Mr. Voeks was the President and Chief Executive Officer of Chorus Communications Group Ltd., a telecommunications company.

THE BOARD RECOMMENDS THE FOREGOING NOMINEES FOR ELECTION AS DIRECTORS AND URGES EACH SHAREHOLDER TO VOTE FOR SUCH NOMINEES. SHARES OF COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR SUCH NOMINEES.

Directors Continuing in Office

Terms expiring at the 2008 Annual Meeting

Jerome J. Smith, age 62, has served a Director of the Company since December, 1989, and Chairman of the Board since July, 2006. He served as CEO from December, 1989 to December, 2006. He served as President of the Company from December, 1989 to February, 2005. He also served as President and Chief Executive Officer of First Business Bank from December, 1989 to July, 1999 and as Chairman of its Board of Directors from April, 2001 to December, 2003.

Leland C. Bruce, age 66, has served as a Director of the Company since December, 2001, and is a member of the Corporate Governance and Nominating Committee and the Compensation Committee. In addition, he serves as a Director of First Business Bank and First Business Capital Corp, and sits on the Directors Loan Committee of each of these subsidiaries of the Company. Mr. Bruce is the President, Chief Executive Officer and Chairman of the Bruce Company of Wisconsin, Inc., a company providing landscaping and golf course construction, which he founded.

2

Loren D. Mortenson, age 67, has served as a Director of the Company since January, 1994 and is a member of the Compensation Committee. He has served as Chairman of Mortenson, Matzelle & Meldrum, Inc., an independent insurance agency, since 1968.

Terms expiring at the 2009 Annual Meeting

Mark D. Bugher, age 58, has served as a Director of the Company since July, 2005 and is a member of the Audit Committee. Mr. Bugher is the Director of University Research Park in Madison, Wisconsin. Prior to this role, Mr. Bugher served as the Secretary of the State of Wisconsin Department of Administration from 1996 to 1999. From 1988 to 1996, he served as Secretary of the State of Wisconsin Department of Revenue. Mr. Bugher serves in leadership positions as chair or board member to many organizations promoting economic development in Wisconsin.

Corey A. Chambas, age 44, has served as CEO of the Company since December, 2006, as President of the Company since February, 2005, and as a Director since July, 2002. He has served as a Director of First Business Bank-Milwaukee, a subsidiary of the Company, since August, 2006. He served as Chief Operating Officer of the Company from February 2005 to September, 2006, and as Executive Vice President of the Company from July, 2002 to February, 2005. He also served as President and Chief Executive Officer of First Business Bank, a subsidiary of the Company, from July, 1999 to September, 2006.

Gary E. Zimmerman, age 64, has served as a Director of the Company since April, 1991 and is Chair of the Compensation Committee and of the Corporate Governance & Nominating Committee. Mr. Zimmerman has been Chairman of Terra Engineering and Construction Corporation from March, 1974 to the present. In addition, he was President and Chief Executive Officer of Terra from March, 1973 to November, 1999.

BOARD OF DIRECTORS

Independent Directors and Annual Meeting Attendance

Of the nine directors currently serving on the Board of Directors, the Board has determined that Leland C. Bruce, Mark D. Bugher, Jan A. Eddy, Loren D. Mortenson, John M. Silseth, Dean W. Voeks and Gary E. Zimmerman are independent directors as that term is defined in the listing standards of The Nasdaq Stock Market, Inc.

Directors are expected to attend the Company's annual meeting of shareholders each year. All eight directors who were directors at the time of the Company's 2006 Annual Meeting attended the meeting.

Committees

The Board held seven meetings in 2006. Each director who was a director in 2006 attended at least 75% of the aggregate of (1) the total number of meetings of the Board during the period in which the director served and (2) the total number of meetings held by all committees of the Board on which such director served during the period in which the director served in 2006.

The Board has a standing Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee. Each of these committees has the responsibilities set forth in formal written charters adopted by the Board. The Company makes available on its website located at www.fbfinancial.com copies of each of these charters free of charge.

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company's accounting and financial reporting processes and the audits of the financial statements of the Company. The Audit Committee presently consists of Dean W. Voeks (Chair), Mark D. Bugher, Jan A. Eddy and John M. Silseth, each of whom meets the independence standards of The Nasdaq Stock Market, Inc. and the Securities and Exchange Commission for audit committee members. The Board has determined that John M. Silseth qualifies as an audit committee financial expert, as that term is defined by the Securities and Exchange Commission, because he has the requisite attributes through his education and experience. The Audit Committee held seven meetings in 2006.

The Compensation Committee reviews and recommends to the Board the compensation structure for the Company's directors, officers and other managerial personnel, including salary rates, participation in incentive compensation and benefit plans, fringe benefits, non-cash perquisites and other forms of compensation, and administers the Company's equity incentive plans. Gary E. Zimmerman (Chair), Leland C. Bruce, Jan A. Eddy, and Loren D. Mortenson are the current members of the Compensation Committee. The Compensation Committee held five meetings in 2006.

The Corporate Governance and Nominating Committee consists of Gary E. Zimmerman (Chair), Leland C. Bruce and Jan E. Eddy, each of whom meets the independence standards of The Nasdaq Stock Market, Inc. for nominating committee members. The Corporate Governance and Nominating Committee's primary functions are to: (1) recommend persons to be selected by the Board as nominees for election as directors, (2) recommend persons to be elected to fill any vacancies on the Board, (3) lead the Board in its annual review of Board performance and (4) develop and recommend to the Board corporate governance principles, policies and procedures. The Corporate Governance and Nominating Committee held three meetings in 2006.

Nominations of Directors

The Corporate Governance and Nominating Committee will consider persons recommended by shareholders to become nominees for election as directors. Recommendations for consideration by the Corporate Governance and Nominating Committee should be sent to the Corporate Secretary of the Company in writing together with appropriate biographical information concerning each proposed nominee. The Company's By-laws also set forth certain requirements for shareholders wishing to nominate director candidates directly for consideration by the shareholders. With respect to an election of directors to be held at an annual meeting, a shareholder must, among other things, give notice of an intent to make such a nomination to the Corporate Secretary of the Company not less than 60 days or more than 90 days prior to the date of the previous year's annual meeting (subject to certain exceptions if the annual meeting is advanced or delayed a certain number of days).

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In identifying and evaluating nominees for director, the Corporate Governance and Nominating Committee seeks to ensure that the Board possesses, in the aggregate, the strategic, managerial and financial skills and experience necessary to fulfill its duties and to achieve its objectives, and seeks to ensure that the Board is comprised of directors who have broad and diverse backgrounds, possessing knowledge in areas that are of importance to the Company. The Corporate Governance and Nominating Committee looks at each nominee on a case-by-case basis regardless of who recommended the nominee. In looking at the qualifications of each candidate to determine if their election would further the goals described above, the Corporate Governance and Nominating Committee takes into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge. In addition, the Board and the Corporate Governance and Nominating Committee believe that the following specific qualities and skills are necessary for all directors to possess:

4

- o A director must display high personal and professional ethics, integrity and values.
- o A director must have the ability to exercise sound business judgment.
- o A director must be accomplished in his or her respective field, with broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.
- o A director must have relevant expertise and experience, and be able to offer advice and guidance based on that expertise and experience.
- o A director must be independent of any particular constituency, be able to represent all shareholders of the Company and be committed to enhancing long-term shareholder value.
- o A director must have sufficient time available to devote to activities of the Board of Directors and to enhance his or her knowledge of the Company's business.

The Board also believes the following qualities or skills are necessary for one or more directors to possess:

- o One or more of the directors generally should be active or former executive officers of public or private companies or leaders of major complex organizations, including commercial, scientific, government, educational and other similar institutions.
- o Directors must be selected so that the Board is a diverse body.

In October, 2006, the Board appointed John M. Silseth to fill the unexpired term of Charles H. Thompson, who retired in July, 2006. Mr. Silseth was recommended to the Board by the Corporate Governance and Nominating Committee by Jerome J. Smith, who served on the Board of Directors of First Business Bank-Milwaukee with Mr. Silseth. Mr. Silseth, who has an audit and accounting background, brings knowledge of the Company, entrepreneurial experience, and audit experience to the Board and was appointed to sit on the Audit Committee in January, 2007.

Communications with the Board of Directors

Shareholders may communicate with the Board by writing to First Business Financial Services, Inc., Board of Directors (or, at the shareholder's option, to a specific director), c/o Margaret M. Bomber, Corporate Secretary, 401 Charmany Drive, Madison, Wisconsin 53719. The Corporate Secretary will ensure that the communication is delivered to the Board or the specified director, as the case may be.

5

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter, the Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company's accounting and financial reporting processes and the audits of the financial statements of the Company.

In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the 2006 Annual Report on Form 10-K with the Company's management and independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. In addition, the Company's independent registered public accounting firm provided to the Audit Committee the written disclosures required by the Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and the Audit Committee discussed with the independent registered public accounting firm the firm's independence. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm on a case-by-case basis. The Audit Committee has considered whether the provision of the services related to the *Audit-Related Fees, Tax Fees and All Other Fees* set forth in *Miscellaneous Independent Registered Public Accounting Firm* was compatible with maintaining the independence of the independent registered public accounting firm and determined that such services did not adversely affect the independence of the firm.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, for filing with the Securities and Exchange Commission.

This report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such Acts.

AUDIT COMMITTEE

Dean W. Voeks, Chair
Mark D. Bugher
Jan A. Eddy
John M. Silseth

6

PRINCIPAL SHAREHOLDERS

Management and Directors

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of March 1, 2007 by: (i) each director and director nominee; (ii) each of the executive officers named in the Compensation Tables, Discussion & Analysis set forth below; and (iii) all of the directors, director nominees and executive officers (including the executive officers named in the Summary Compensation Table) as a group. Except as otherwise indicated in the footnotes, each of the holders listed below has sole voting and investment power over the shares beneficially owned. As of March 1, 2007, there were 2,497,161 shares of Common Stock outstanding.

Name of Beneficial Owner

Management and Directors

7

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	Shares of Common Stock Beneficially Owned	Percent of Common Stock Beneficially Owned
Gary E. Zimmerman	91,996(1)	3.7%
Leland C. Bruce	74,670	3.0%
Corey A. Chambas	62,938(2)	2.5%
Jerome J. Smith	56,390	2.3%
James F. Ropella	25,255(2)	1.0%
Michael J. Losenegger	15,650(2)	*
Charles H. Batson	12,500	*
Loren D. Mortenson	8,000	*
John M. Silseth	7,500	*
Dean W. Voeks	5,335	*
Jan A. Eddy	4,908	*
Mark D. Bugher	1,500	*
All directors, nominees and executive officers as a group (14 persons)	395,060(2)	15.8%

* Denotes less than 1%.

- (1) Includes 5,292 shares held in the name of Carole A. Zimmerman, Mr. Zimmerman's spouse. Mr. Zimmerman has no voting or investment power over these shares.
- (2) Includes shares of Common Stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 1, 2007, as follows: Mr. Chambas, 25,932 shares; Mr. Ropella, 12,000 shares; Mr. Losenegger, 11,875 shares; and all directors, nominees and executive officers as a group, 72,245 shares.

7

Other Beneficial Owners

The following table sets forth certain information regarding beneficial ownership by the only other person known to the Company to own more than 5% of the outstanding Common Stock. The beneficial ownership information set forth below has been reported in filings made by the beneficial owner with the Securities and Exchange Commission.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Class
Sam Jacobsen 3541 Bishops Way Middleton, WI 53562	321,536	12.9%

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Executive Compensation Philosophy

The Company operates a diverse set of subsidiaries within the highly competitive financial services industry. Each subsidiary has specific goals and measures of performance as well as compensation programs tailored to those goals. The Company's compensation philosophy sets out the principles that must be common to each of these programs, including that of the Company itself. These principles are:

- o Pay all employees a fair base salary commensurate with their respective responsibilities.
- o Provide fringe benefit programs for all employees at a level that is consistent and competitive within the geographic area of the Company.
- o Design incentive compensation programs that reward results consistent with the Company's objective of increasing long term shareholder value.
- o Provide an equity incentive program that will enable the Company to attract and retain highly qualified executives, and that will align the interests of the executives with those of the Company's shareholders.

The Company wishes to attract and retain key executives in the competitive markets in which it operates, to set appropriate performance goals for those key executives, and to align the short term and long term goals of the executive with those of the Company. The success of the Company will lead to motivated, successful, well compensated executives.

Role of Our Compensation Committee

The Compensation Committee (the "Committee") reviews and makes recommendations to the Board to ensure that the Company's executive compensation and benefit programs are consistent with its corporate governance guidelines and the compensation philosophy described above. The Committee is appointed by the Board, and is composed entirely of directors who meet independence requirements as defined by Nasdaq Rule 4200a(15). In addition, each director who serves on the Committee is a non-employee director under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and satisfies the requirements of an outside director for purposes of Section 162(m)(4)(C) of the Internal Revenue Code. The members of the Committee are Gary E. Zimmerman, Leland C. Bruce, Jan A. Eddy, and Loren D. Mortenson.

The Committee is governed by its charter, which is reviewed annually, and may be found on the Company website, www.fbfinancial.com, within the Investor Relations tab, under Governance Documents. The broad responsibilities and duties of the Committee are as follows:

- o Setting compensation for the CEO and other executive officers;
- o Monitoring incentive and equity-based compensation plans;
- o Presenting Committee recommendations regarding equity compensation awards for Board approval; and
- o Reviewing and approving the proxy compensation report in accordance with SEC guidelines.

The Committee has the authority to retain inside advisors, and has sole authority to retain and pay outside advisors. The Committee calendar and meeting agendas are set by its Chairman, Gary E. Zimmerman, with the assistance of Human Resources Senior Vice President, Jodi A. Chandler. The Committee may not delegate either its responsibilities or its authority to other persons.

The Committee took the following steps during 2006 to fulfill its objectives, described above.

- o In 2005, the Committee, together with management, retained Hewitt Associates, LLC to perform a review of the Company's executive compensation programs. The review consisted of a comprehensive assessment of the Company's executive compensation program, as compared to a peer group of bank holding companies that specialize in business banking and range in asset size from \$400 thousand to \$2.8 billion, for competitive pay, change in control provisions, and supplemental executive retirement plans. The study focused on the top nine executive officers in the Company. The results of this study were used in 2006 to review and assess executive compensation.
- o The Committee reviewed the performance of the Company's CEO and recommended to the independent members of the Board, the base salary increase for the CEO. The recommendation was based on the CEO's achieving goals set for the year in light of the philosophy as stated above, and taking competitive levels of compensation into consideration.
- o The Committee reviewed the performance of the Company's named executive officers and other key employees, with the assistance of the CEO and management, and recommended base salary increases based on achievement of goals set for the year in light of the philosophy stated above, and taking competitive levels of compensation into consideration.
- o The Committee finalized the revision and update of the agreement with Corey A. Chambas, which was signed in November, 2006. The Committee also formulated a new job description for Jerome J. Smith as an executive consultant and approved his compensation program for 2007, following his resignation as CEO of the Company at year end. Mr. Smith continues to serve as Chairman of the Board.
- o The Committee performed its annual review of the Company's compensation philosophy, the compensation policy, and non-equity incentive program, and approved the 2005 401(k) profit sharing contribution, the 2006 non-equity incentive criteria targets, and various restricted share grants throughout the year.
- o The Committee, with the assistance of the CEO and the Senior Vice President of Human Resources, assessed and made recommendations regarding the competitiveness of the Company's overall compensation and benefits program.
- o The Committee had the template for a Change in Control and Severance Agreement drafted.

Total Compensation

The Company strives to attract and retain executives with the integrity, management skills, and knowledge of the industry that will fit the Company's particular culture and serve the Company, the executive and the Company's shareholders in the best manner possible. The Company's executive compensation has three basic components:

1. A base salary component;
2. A short-term component, or non-equity incentive plan, which is directly tied to operating performance; and
3. A long-term component through the Company's equity incentive plan.

Total executive compensation is structured to ensure that the short and long term goals of the Company and the executives are aligned. The Company believes that the total compensation paid or awarded in 2006 to the officers named in the summary compensation table, which we refer to as the named executive officers, was consistent with the financial performance of the Company and the individual performance of each of the named executive officers. The Company also believes that this total compensation was reasonable and is consistent with its compensation philosophy. The named executive officers for 2006 are Corey A. Chambas, President and CEO of the Company, James F. Ropella, Senior Vice

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President and CFO of the Company, Jerome J. Smith, Chairman and former CEO of the Company, Michael J. Losenegger, COO of the Company and CEO of First Business Bank, a subsidiary of the Company, Mark J. Meloy, President of First Business Bank, and Charles H. Batson, President and CEO of First Business Capital Corp., a subsidiary of First Business Bank.

10

Elements of Compensation

Base Salary

The Committee reviews the base salaries of the Company's named executive officers annually, and takes a variety of factors into consideration. These factors include the duties and responsibilities of the position, level of experience, individual performance, Company and specific entity financial performance, and competitive forces particular to the geographic market of the Company and the specific entities. The Committee also considered the advice of Hewitt Associates, LLC when setting the base salaries for 2006.

The Company establishes a market target salary for each position within the Company. This target is priced to market using local, national and industry specific data. Internal equity is also taken into consideration when establishing the market target. The Company works to maintain a flexible system so that it is able to recruit and retain highly qualified executives. The Company sets salaries as follows: each employee with outstanding performance receives a salary above the market target salary, each employee that exceeds performance objectives receives a salary at the market target, and each employee with average performance receives a salary slightly below the market target. This policy is used for positions at all levels.

Base salary increases from 2005 to 2006 were as follows: Mr. Chambas, 7.1%, Mr. Ropella, 3.6%, and Mr. Smith, 5%. The average increase in base salaries for all employees across all Company entities from 2005 to 2006 was 3.48%. Mr. Batson did not receive an increase to his base salary because he did not join the Company until the beginning of 2006. Mr. Losenegger received a 13% increase when he assumed the role of CEO of First Business Bank and an additional increase of 12.5% when he became Chief Operating Officer of the Company. His base salary at year end was \$180,000. Mr. Meloy did not receive a base salary increase from 2005 to 2006 but received a 16.3% increase when he assumed the role of President of First Business Bank.

Non-Equity Incentive Program

The Company maintains a non-equity incentive program for all employees who work at least thirty hours per week, including the named executive officers. The percentage payout is based on Company and subsidiary entity performance and the employee's position with the Company or subsidiary entity. The non-equity incentive program is intended to emphasize achievement of the Company's corporate financial goals and reward the performance of those who fulfilled their responsibilities in meeting those goals.

The Company believes that a significant element of the total compensation of its named executive officers must be linked to operating performance. Payouts under the non-equity incentive program are based on established performance criteria and formulas within those criteria that measure operating performance in terms of steady and sustainable earnings per share growth.

11

The Company uses growth in top line revenue, which the program defines as net interest revenue plus non-interest income, and cash flow, which the program defines as net income after tax before loan loss provision and adjusted for actual net charge-offs, as the two performance measures indicative of desirable growth, both in the Company and in its subsidiaries. The non-equity incentive plan criteria are set within each entity, with some portion of individual incentive compensation aligned with the Company's overall performance. 2006 operating performance goals for the Company, for First Business Bank, and for First Business Capital Corp. are listed in the chart below.

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Company	Measure	Threshold	Target	Superior
First Business Financial Services	Top line revenue growth	5.00%	10.00%	25.00%
First Business Financial Services	Cash flow growth	5.00%	10.00%	25.00%
First Business Bank	Top line revenue growth	4.00%	10.00%	20.00%
First Business Bank	Cash flow growth	4.00%	10.00%	20.00%
First Business Capital Corp.	Top line revenue growth	10.89%	18.81%	32.01%
First Business Capital Corp.	Cash flow growth	-10.27%	0.21%	21.16%

Payouts under the Company's non-equity incentive program are determined by the overall performance of the Company and by the performance of the subsidiary entity for which the executive works. Entity performance comprises 75% of the payout and the overall Company performance comprises 25% of the payout. The predefined threshold must be reached before any payout is made, for all entities and all employees. Once threshold is reached, there is a sliding scale for performance to the predefined target, with the maximum payment made at the predefined superior level. The threshold/target/superior percentages for 2006 for the named executive officers are listed in the table below:

Company Executive	Non-Equity Incentive Plan Payout
Jerome J. Smith	10-35-75% of base salary
Corey A. Chambas	10-35-75% of base salary
Charles H. Batson	10-35-75% of base salary
Michael J. Losenegger	8-25-50% of base salary
James F. Ropella	8-25-50% of base salary
Mark J. Meloy	8-25-50% of base salary

The non-equity incentive plan compensation for Mr. Chambas, Mr. Smith and Mr. Ropella was based on the Company reaching the threshold of 5% in top line revenue growth, or \$22.32 million of total top line revenue, with an actual growth rate of 6.57%, or \$22.65 million of total top line revenue, and the percentage of salary payout accorded to each. The Company did not reach its cash flow growth threshold of 5%.

The non-equity incentive plan compensation for Mr. Batson was based on a combination of the performance of First Business Capital Corp. and the Company. 75% of the payment was based on goals set for First Business Capital Corp. Mr. Batson was hired as the President and CEO of First Business Capital Corp. in January, 2006, a position that had been vacant since July, 2005. The hire of Mr. Batson resulted in an increase in operating expenses for 2006. The cash flow threshold of \$1.29 million for 2006, a decrease of 10.27% from 2005, was set taking this increased operating expense into consideration. The actual cash flow for 2006 was \$1.37 million, or a growth rate of (4.13%). First Business Capital Corp. did not reach its top line revenue threshold of \$5.01 million, or growth of 10.89%. 25% of the payment to Mr. Batson was based on the Company performance targets and thresholds discussed above.

The non-equity incentive plan compensation for Mr. Losenegger and Mr. Meloy was based on a combination of the performance of First Business Bank and the Company. 75% of the payment was based on First Business Bank reaching the threshold of 4% in cash flow growth, or \$4.87 million of total cash flow, with an actual growth rate of 8.80%, or \$5.10 million of total cash flow, and the percentage of salary payout accorded to each. First Business Bank did not reach its top line revenue growth threshold of 4%. 25% of the payment made to Mr. Losenegger and Mr. Meloy was based on the Company performance targets and thresholds discussed above.

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The Company has an equity incentive plan that is administered by the Committee and the Board. The Committee has the authority to grant stock options, shares of restricted stock, restricted stock units, and performance shares under the equity incentive plan. The general purpose of the Company's equity incentive plan is to provide compensation opportunities to its executives, contingent upon the long-term performance of the Company. The Company's equity incentive plan ensures that the Company's named executive officers have a continuing stake in the long-term success of the Company, which is consistent with the Company's overall compensation philosophy.

In previous years, the Company awarded stock options to its named executive officers. The Committee replaced stock options with grants of restricted stock as of May, 2005. This change in practice was made to reduce the risks and expense associated with valuing options required with the adoption of Statement of Financial Accounting Standards No. 123R, *Accounting for Stock-Based Compensation*. Restricted stock awarded under the equity incentive plan is generally subject to a four-year restriction, or vesting, schedule.

Grants of restricted stock made under the equity incentive plan are awarded by the Board upon the recommendation of the Committee and the CEO, and are made on a subjective basis. Consideration is given to the financial performance of the Company in determining whether to award restricted stock and the size of the award. In recommending the size of the award, the Committee and CEO consider the level of responsibility of the officer considered for an award and the performance of that officer in his or her area of responsibility. In addition, restricted stock may be awarded as part of an offer of employment, based on level of responsibility and Company expectations of performance, or as part of increased compensation due to a promotion. Shares of restricted stock are generally granted on the date of the regularly scheduled meetings of the Committee and are effective on the grant date. The restricted stock awards to the named executive officers are found in the Grants of Plan-Based Awards Table.

Other Benefits

401(k) Plan with discretionary profit sharing

All employees, including the named executive officers, are eligible to participate in the Company 401(k) plan. In addition, all employees who have been employed by the Company for one year, worked 1,000 hours or more during that year, and are 21 years of age, are eligible to receive the Company match of 100% of the first 3% of compensation contributed to the plan. The Board may authorize an additional annual profit sharing contribution of up to 6% of the employee's total salary and bonus with an individual cap of \$220,000, based on the performance of the Company. The profit sharing contribution is subjective and granted at the discretion of the Board, acting on the recommendation of the Committee.

Perquisites

In 2006, the Company provided either a vehicle or a vehicle allowance for Mr. Smith, Mr. Chambas, Mr. Batson, Mr. Losenegger, and Mr. Meloy. In addition, in 2006, the Chairman and former CEO of the Company, Jerome J. Smith, had the use of memberships at Bishops Bay Country Club, a private golf club, and the Madison Club, a membership only club used for business meetings and entertaining. Mr. Smith used these memberships for business development purposes and reimbursed the Company for any personal usage. Mr. Meloy had use of a membership at the Madison Club beginning in November, 2006, to be used for business development purposes.

Agreements with Executives

The Company has a supplemental retirement agreement in place with Jerome J. Smith, Chairman and former CEO. First Business Bank, a subsidiary of the Company, has a supplemental retirement agreement in place with Corey A. Chambas, President and CEO of the Company and former President and CEO of First Business Bank. First Business Capital Corp., a subsidiary of First Business Bank, has a change in control and severance agreement in place with Charles H. Batson, President and CEO of First Business Capital Corp. The agreement with Mr. Smith provides retirement and death benefits in view of the contributions made to the Company and its subsidiaries by Mr. Smith as founder and CEO from 1990 through the end of 2006. The agreement with Mr. Chambas provides retirement and death benefits, along with a Change in Control provision. First Business Bank entered into the agreement with Mr. Chambas when he was a bank executive and had no role in the Company. The Company has chosen to keep the parties to the agreement the same for administrative ease.

SUMMARY COMPENSATION TABLE

The following table sets forth for each of the named executive officers: (1) the dollar value of base salary and bonus earned during 2006; (2) the dollar value of the compensation cost of all outstanding stock and option awards recognized over the requisite service period, computed in accordance with FAS 123R (without reduction for estimated forfeitures); (3) the dollar value of earnings under the non-equity incentive plan for 2006; (4) the change in pension value during 2006; (5) all other compensation for the year; and (6) the dollar value of the total compensation for the year. The named executive officers are Corey A. Chambas, President, CEO and Director, Jerome J. Smith, Chairman of the Board and former CEO, James F. Ropella, Senior Vice President and CFO, Charles H. Batson, President and CEO of First Business Capital Corp., Michael J. Losenegger, Chief Operating Officer of the Company and CEO of First Business Bank, and Mark J. Meloy, President of First Business Bank.

14

Name and principal position	Year	Salary (\$)	(a) Bonus (\$)	(b) Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	(c) Change in pension value (\$)	(d) All other compensation (\$)	Total (\$)
Corey A. Chambas, President, CEO and Director	2006	240,000	0	146,965	0	18,288	34,689	14,954	454,896
James F. Ropella, Senior Vice President & CFO	2006	159,000	0	69,090	0	9,190	0	10,666	247,946
Jerome J. Smith, Chairman (e)	2006	292,400	0	69,090	0	22,281	4,075	11,960	399,806
Charles H. Batson, President & CEO, First Business Capital Corp	2006	190,008	150,000	141,000	0	21,186	0	3,900	506,094
Michael J. Losenegger, Chief Operating Officer; CEO of First Business Bank	2006	&nb							