

EXHIBIT D



U.S. Department of Justice

*United States Attorney
Southern District of New York*

The Silvio J. Mollo Building
One Saint Andrew's Plaza
New York, New York 10007

June 1, 2020

Paul H. Schoeman, Esq.
Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, NY 10036

Re: *United States v. Stephen M. Calk*, 19 Cr. 366 (LGS)

Dear Mr. Schoeman:

Based on your request, this letter provides notice, pursuant to Rule 16(a)(1)(G) of the Federal Rules of Criminal Procedure ("Fed. R. Crim. P."), that the Government may call Jeff McCutcheon of Board Advisory to testify as an expert witness in the trial of this matter regarding his analysis of the potential monetary value of (a) the defendant's Stephen M. Calk's ("Calk's") service on the Trump presidential campaign's Economic Advisory Counsel, and (b) Calk's appointment to the position of Secretary of the Army or Undersecretary of the Army in the presidential administration. The information contained in this disclosure is Highly Confidential within the meaning of the protective order. We make the following disclosures pursuant to Rule 16(a)(1)(G), and we reiterate our request for expert witness disclosure from you pursuant to Rule 16(b)(1)(C).¹

¹ The Government also reiterates its requests for reciprocal disclosure of any results or reports of physical or mental examinations and of scientific tests or experiments made in connection with this case, or copies thereof, which are in the defendant's possession or control, and which the defendant intends to introduce as evidence or otherwise rely on at trial or which were prepared by a witness whom the defendant intends to call at trial. The Government also reiterates its request that the defendant disclose prior statements of witnesses he will call to testify, including expert witnesses. *See* Fed. R. Crim. P. 26.2; *United States v. Nobles*, 422 U.S. 225 (1975). We request that such material be provided on the same basis upon which we agree to supply the defendant with 3500 material relating to Government witnesses.

A. Qualifications

Mr. McCutcheon is the Managing Director and co-founder of Board Advisory, a management consulting firm that advises boards of directors on matters concerning executive compensation, talent acquisition, performance, retention, and succession. Mr. McCutcheon has a B.A. in from Michigan State University's School of Business Administration, a Master's degree from its School of Labor & Industrial Relations, and thirty-seven years of experience in the human resources and compensation fields. Mr. McCutcheon has spent more than fifteen years serving as an advisor to boards of directors and investor groups on issues relating to executive and board member compensation and is familiar with how a candidate's skills and experience affect his opportunities and market value. A copy of Mr. McCutcheon's resume is attached hereto as Exhibit A.

Mr. McCutcheon has previously been engaged as an expert in the following matters on the topics specified below:

- *Thomas Tokos v. Renesas Electronics America Inc.* (Arbitration, 2019)
 - Executive termination, change in control, accounting and regulatory treatment of liability;
- Confidential Employment Settlement, Rodgers Towers, P.A. (Settlement prior trial, 2016)
 - Valuation of potential future earnings of executive serving as CEO and as board member to several companies;
- *Merrill Lynch, Pierce, Fenner & Smith, Inc., v. Smolchek, et. al.* (FINRA Arbitration, 2012, confirmed in 12 Civ. 80355 (S.D. Fla. 2012))²
 - Employee termination, change in control, benefit plan provisions;
- *Giles v. Giles* (divorce mediation, 2011)
 - Valuation of CEO equity, benefits, and deferral arrangements.

B. Testimony

The Government expects that, if called to testify, Mr. McCutcheon would testify regarding the potential monetary value of (1) an appointment to a presidential campaign advisory post, and (2) an executive branch appointment. Specifically, the Government expects that Mr. McCutcheon would testify that he conducted an analysis of the potential value of (1) an appointment to the Trump presidential campaign's Economic Advisory Council and (2) a position as Secretary of the Army or Undersecretary of the Army with respect both to Calk's individual potential for future earnings and opportunities and to Calk's ownership share in The Federal Savings Bank as an entity, and concluded that the value of each was in excess of \$1,000.

² Mr. McCutcheon was engaged as an expert on topics similar to those presented in *Smolcheck*, above, in connection with four additional cases that settled prior to FINRA arbitration (*Brigman & Rosa, Lewis, Shepherd, Zick* (2012)).

Mr. McCutcheon's report describing his analysis and conclusions in more detail is attached hereto as Exhibit B (the "Report").

C. Bases and Reasons in Support of Opinions

The bases and reasons in support of Mr. McCutcheon's opinions are his training and experience in the field of executive compensation, as described above and in his resume, attached as Exhibit A, his analysis of post-appointment employment of previous administration officials, and his analysis of the value of similar appointments to other financial institutions, as described in his Report, attached as Exhibit B.

Very truly yours,

AUDREY STRAUSS
Attorney for the United States
Acting Under Authority Conferred by
28 U.S.C. § 515

By: /s/ Benet J. Kearney
Paul M. Monteleoni
Douglas S. Zolkind
Benet J. Kearney
Assistant United States Attorneys
(212) 637-2219/2418/2260

Exhibit A

JEFF MCCUTCHEON
956 Elder Lane Office: 904-306-0907
Jacksonville, Florida 32207 Mobile: 904-728-7700
Email: jeff@boardadv.com

Board Advisory, LLC Jacksonville, Florida
Managing Director & Co-Founder

June 2004 – Present

Co-founded Board Advisory LLC, the first management consulting firm focused exclusively on helping boards of directors and investor groups with executive compensation consulting services. Assist boards with the design, execution and SEC reporting of executive equity, cash incentive and retention programs. Provide support in the design and execution of executive performance and succession programs. Clients include private equity, foreign investors, and boards of public and private companies, and range from global defense contractors to technology companies, with extensive work within financial services firms.

CSX Corporation Jacksonville, Florida

2000 – 2003

SVP Human Resources, VP Compensation & Benefits

Led corporate HR efforts in business turnaround and disposition of non-core businesses. Implemented Six Sigma and other process methodologies to restructure support functions. Led restructure of global maritime terminal business in preparation for \$1.15B sale, reducing expense by \$6M. Helped develop 32,500-mile fiber-network subsidiary and served on board of directors. Negotiated first-in-rail-industry performance incentive for unionized rail employees. Restructured premium sharing formula for 50-year old \$1.2B multi-employer union healthcare plan (\$30M savings) and implementing transparent external audit process. Fiduciary for \$2B pension investment committee.

Sibson & Company (now Segal Company) Cary, North Carolina
Senior Consultant

1998-2000

Led client engagements to improve organizational effectiveness for international management consulting firm. Approximately half of engagements involved clients undergoing some form of change in capitalization, particularly within technology and financial services industries.

Barnett Banks, Inc. (now Bank of America) Cary, North Carolina

1996-1998

HR Partner/Compensation, Benefits, HRIS and HR Strategy

Led team of 135 HR, accounting and payroll professionals at \$42B (assets) banking franchise recognized for industry-leading 'employee-friendly' approach to management, with over 22,000 employees in 30+ states. Responsible for HR strategy & planning, compensation & benefits (including pension investments), payroll (including tax and accounting), HRIS and employee service center. Served on 7-person transaction team for sale of the enterprise to NationsBank (Bank of America), setting a record for highest multiple of book value (4.1x BV). Designed trust arrangement for securitization of change in control and employee benefit protections.

Federated Department Stores, Inc. (now Macy's) Cincinnati, Ohio
Operating Vice President, Compensation

1992 – 1996

Led design and administration of executive and associate compensation, performance and development programs. Developed post-bankruptcy executive compensation program including phantom equity arrangement for operations in 16 countries. During this time the company emerged from bankruptcy and doubled in size to over \$16B in revenues and 135,000 associates.

Coca-Cola Enterprises Inc., Atlanta, Georgia 1988 -1992
Director, Compensation

Led design and administration of executive compensation and associate compensation programs, including an all-employee option program. Consolidated and redesigned pay and benefit programs in formation of \$5B bottling company composed of previously independent bottling franchises.

Hughes Aircraft Company, Missile Systems Group Tucson, Arizona 1983 - 1988
Labor Relations/Senior Human Resource Generalist

Assignments ranged from labor negotiations to HR information system design to health care benefit design, including skill-based career progression & compensation program still in use today for bargaining unit employees (Int. Assoc. of Machinists). During this time the Missile Systems Group doubled in size, employing 5,000 salaried and 4,000 bargaining unit (IAM & IUOE) employees.

Education

Master of Arts, School of Labor & Industrial Relations; Michigan State University, 1981.

Bachelor of Arts, School of Business Administration; Michigan State University, 1979.

Other Activities

Apellix: November 2015 - Present

Board Member and Chief Financial Officer

Serve as board member and part-time CFO for start-up software company. Apellix creates proprietary software and hardware to enable aerial robots (drones) to perform autonomous non-destructive tests for maritime, energy and infrastructure applications.

Okefenokee Swamp Park, Inc.: February 2016 - Present

Trustee/Board Member

Serve as a director on the board of the 503(c) charitable organization. The Park's mission is to promote ecological tourism and education by providing a convenient point of entry into the Okefenokee Swamp -- an authentic opportunity for the public to develop an appreciation for the wildlife, culture, and natural beauty of the "Land of the Trembling Earth."

Expert Witness

Provided confidential compensation analysis for litigation involving CEO pay for Rodgers Towers, PA, Jacksonville, Florida (Christopher Hazelip, Lead Counsel), 2016. Case involved valuation of CEO pay arrangements including equity and various deferred elements of pay, and assessment of future career earnings potential. Settled prior to trial.

FINRA Arbitration Between Meri Ramazio and Tamara Smolchek, Claimants, v. Merrill Lynch Pierce Fenner & Smith Inc., Respondent (FINRA Arbitration 10-04432, April 3, 2012): Testimony on executive compensation program design features including the change in control protections, stock deferral programs, and related key design features of contemporary equity plans. Specific research and opinion on equity programs at Merrill Lynch and the appropriate treatment of shares in the context of the Merrill Lynch / Bank of America merger. Also provided analysis on related FINRA arbitration cases involving same issues for Rosa, Zick, Shepherd and Lewis (2012-2013). Shumaker, Loop & Kendrick, LLP, Sarasota, Florida. (Mike Taffe, lead counsel.)

Consultant to Shumaker, Loop & Kendrick, LLP on FINRA cases and related class action litigation (2010-2015).

Exhibit B

MCCUTCHEON, LLC

May 28, 2020

CONFIDENTIAL

Mr. Paul M. Monteleoni
Assistant United States Attorney
Southern District of New York
One St. Andrew's Plaza
New York, NY 10007
Via Email: paul.monteleoni@usdoj.gov

Paul,

In the following analysis I address your question regarding the potential value, if any, to Stephen Calk of serving on a president's advisory panel or as an appointee to the post of Secretary of the Army (SecArmy) or the post of Undersecretary of the Army (Under SecArmy). I address this question from two perspectives:

- The individual value to Mr. Calk; and,
- The indirect value to Mr. Calk realized through his ownership in Federal Savings Bank (FSB) / National Bancorp Holdings.

My Background

My opinion is informed by thirty-seven years as both a Human Resources executive and as an advisor to boards of directors. For the past sixteen years of my career I have served as an advisor to boards of directors and investor groups on issues relating to executive and board member performance, compensation and succession, including selection criteria and job requirements. In my role as an advisor I regularly opine on the competitiveness of compensation arrangements relative to skills and experience (i.e., market value) of the candidate. My CV is attached as Exhibit A.

Summary

It is my opinion that an executive branch appointment is valuable, as is appointment to a campaign advisory post. Such opportunities can positively impact the appointee's human capital by providing insights not generally available to other people, providing experience managing unique and often very large organizations, and by expanding the appointee's network due to the role's social interaction¹.

The human capital gained from the experience will vary based on factors including the specific appointment and the individual's background prior to the appointment. Similarly, the amount of economic value realized in post-appointment employment or business transactions, presumably due to the increase in human capital realized by the appointment, will depend on many personal factors, including age and post-appointment career decisions. However, the threshold expected value at the

¹ "Chicagoan Is Economic Policy Adviser To Donald Trump", <https://chicago.cbslocal.com/2016/08/08/chicagoan-is-economic-policy-adviser-to-donald-trump/>, where CBS notes that "At least four billionaires, one oil mogul and five hedge fund titans are members of Donald Trump's economic advisory team. There's only one Chicagoan."

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time of appointment can be established based on the decisions of the executive and informed by outcomes realized by other similarly situated individuals.

That a presidential appointment is valuable beyond the immediate salary should not be in question. Executives from some of the largest companies in the US often accept government appointments that require a substantial reduction in earnings and often a restructuring of their investments, all for a position with long hours, exceptional public scrutiny and reputational risk, and a salary of under \$200,000 per year. In the case of Stephen Calk, the question of value involves appointment to candidate Trump's economic advisory council, and potential post-election appointment to the SecArmy role and the Under SecArmy role. Each one of these appointments has a value to Mr. Calk in excess of \$1,000.

Human Capital

Human capital is the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for the individuals, their employers, or their community. To simplify, investment in human capital (e.g., education, experience and training) is reflected over time in earnings, similar to the return on invested financial capital.² In the case at hand, I propose that an individual accepts a presidential (or presidential candidate) appointment, not for the pay, but for the experience, visibility and status associated with the position. In addition to the honor or personal value that the individual may realize from the appointment, the economic sacrifice (accepting a position that reduces the individual's current earnings) constitutes an investment by the appointee in their individual human capital and an opportunity for greater gains post-appointment. This investment in human capital is expected to provide a premium return over the executive's remaining career, creating a present value attributed to the appointment itself.

In the instance of Mr. Calk, he was a 55-year old³ CEO of a mortgage originator operating inside a community bank structure. At year-end 2018, the most recent year-end prior to his resignation, the bank had assets of just under \$400M⁴, ranking it 3,946 in US banks.⁵ Mr. Calk's status as a banker had little visibility on the national scale. While he can be commended for building the mortgage company, he would not be a leading candidate for a Russell 3000 board seat nor would he be a likely candidate for even a \$3B-\$5B (assets) community bank CEO role. However, the exposure provided by the Economic Advisory Council appointment and the potential experience and exposure of a presidential appointment could open up both of those future opportunities and many more.

Mr. Calk on Candidate-Trump's Economic Advisory Council

The appointment of Mr. Calk to candidate Trump's economic advisory council brought substantial publicity to FSB and to Mr. Calk as a notable banker, veteran, and champion of home ownership. It provided visibility on a national scale for both Mr. Calk and bank that could substantially bolster the key marketing message of Federal Savings Bank and also increase the visibility of the bank to assist in attracting customers, employees, investors, and potentially even acquirers.

² The concept of human capital dates back to Adam Smith, but the modern use of the economic term as a concept for analysis of wages is first found in 1958 by Mincer, Jacob *Studies in Human Capital*. [1. "Investment in Human Capital and Personal Income Distribution"](#). Edward Elgar Publishing, 1993.

³ Various media articles have reported Mr. Calk's year of birth ranging from 1964 to 1967.

⁴ Annual Report of Holding Companies-FR Y-6, National Bancorp Holdings, Inc.

⁵ S&P Global. Ranking reflects US banking institutions as of 12/31/2018, by assets. For the most recent quarter (3/31/2020), the bank has assets of just under \$760M, ranking 2,484 among US banking institutions.

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Appointment to the economic advisory council creates a public association of Calk with 14 other individuals, each of whom brings to the group substantially greater gravitas, economic success and policy credentials than Calk. Five of the group are documented billionaires, five are CEOs of major financial institutions and four are CEOs of other major firms⁶. This association with the Council is invaluable to Calk in terms of current and future access to business circles that the \$400M mortgage bank CEO would not otherwise have. The appointment to the Council also has value to the Bank, as it indirectly credentializes the Bank's leadership through association with some of the major players in the US economy. The appointment of the CEO provides positive press about the competence of the Bank's leadership, independent of political party affiliation or individual policy views.

The intangible value of the appointment to the Economic Advisory Council has a value to Mr. Calk in excess of \$1,000⁷. The increased positive publicity for the bank (for which Mr. Calk owns 67%) as well as the increased access, stature and affiliation for Mr. Calk are all valuable intangibles that the bank or Mr. Calk would willingly spend more than \$1,000 to acquire. This is evidenced by the willingness of Mr. Calk to incur the time commitment and personal expense to participate in the Council.

Mr. Calk as Secretary of the Army or Under Secretary of the Army

Other than serving in the military as a helicopter pilot, Mr. Calk had no professional experience outside of mortgage origination and community banking. However, service as the Secretary of the Army or the Under Secretary of the Army brings exceptional insights into very long-term strategic technological development and purchasing intentions of the US government. It also provides first-hand knowledge of the Senate and House Armed Services Committees, and the Senate and House Appropriations Subcommittees on Defense. Further, the role has direct management responsibility that cannot be found elsewhere. The SecArmy is effectively the Chief Executive Officer (CEO) and the Under SecArmy is effectively the Chief Operating Officer (COO) of the Army, responsible for annual spending more than \$250 billion per year, comparable to executive roles at Apple Inc., and employing around 1.3M employees directly, comparable to the executive roles at Walmart.

In this sense, the Army appointments have responsibilities and impact comparable to CEO and COO roles running the largest corporations in the United States, providing the appointees with unique experience allowing exceptional career flexibility and opportunity upon conclusion of the service. As a simple matter of example, at the time of Mr. Calk's resignation from FSB the median CEO within the top 250 companies in the US received annual compensation in excess of \$13,000,000 per year; the median COO received compensation in excess of \$6,000,000 per year; in both instances far more than a \$400M bank CEO would expect⁸.

⁶ Forbes Magazine, as quoted in The Guardian <https://www.theguardian.com/us-news/2016/aug/05/donald-trump-economic-advisers>.

⁷ The value of an intangible can be determined several ways, but the most direct method involves identifying the price a person will pay for it. See Association of International Certified Professional Accountants, "Three Approaches to Valuing Intangible Assets", <https://www.cgma.org/content/dam/cgma/resources/tools/downloadabledocuments/valuing-intangible-assets.pdf>.

⁸ Standard and Poor's reporting from Securities and Exchange Commission data on the 250 largest companies in terms of revenue, 2019 proxy filings (DEF14A) for executives identified as the principal executive officer of the company (CEO) or those identified with the Chief Operating Officer title, respectively. In comparison, Standard and Poor's reports the median salary for the CEO of a \$350M-\$500M bank (assets) in 2018 was \$451,000, with total compensation of \$876,000 (N=449).

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In addition, this experience also had the potential to position Mr. Calk as a prime candidate for a board seat at a defense contractor or any company catering to the needs of veterans. Again, using the top 250 companies for reference, the median director compensation for 2018 was roughly \$300,000 per year.⁹

Based on the experience of recent Secretaries and Undersecretaries of the Army, we can expect that Mr. Calk's experience from either of the Army roles would have allowed him to retire from banking and accept employment in a new field, where prior to the appointment he would not have been qualified. A review of the most recent SecArmy and Under SecArmy appointees provides some support for this conclusion. For those appointees coming from public service careers, the experience appears to profoundly increase their post-appointment earnings (Tables 1 and 2, below).

Dr. Mark Esper, the 23rd Secretary of the Army (2017 - 2019) and the 27th Secretary of Defense (2019-present) had a career in the military and served as an advisor to two senators and several committees. He was employed by think tanks and led a unit of the Aerospace Industries Association (AIA). Prior to appointment as SecArmy, Dr. Esper served as vice president for government affairs at Raytheon. The Government Affairs role at Raytheon is a third-tier executive role reporting to another non-CEO executive (vice president of business development). Assuming no scandal, upon his exit from the role of Secretary of Defense Dr. Esper will likely walk into a CEO role at a defense contractor or serve on the board of a defense contractor. On a pay scale basis, he could expect an increase of ten times his prior private sector earnings (based on average compensation) and more than 30 times his Secretary of Defense compensation.¹⁰

Ryan McCarthy is the current Secretary of the Army and prior to that, Undersecretary of the Army. In addition to a career in public service, and immediately preceding his appointment as UnderSecArmy, Mr. Ryan spent 6 years in management at Lockheed Martin, primarily working on the F-35 program. Similar to Dr. Esper, and assuming no scandal, upon his exit from SecArmy he will likely walk into a senior executive role at a defense contractor or serve on the board of a defense contractor. Like with Dr. Esper, he can expect a new private sector role to reward him at several multiples of his prior compensation.

Looking back at prior SecArmy appointees, we can find examples of the financial benefits of the role (Table 1). In several instances, but clearly not all, the appointee leveraged a brief cabinet role into a substantially larger private sector role upon exit. This practice is common to other cabinet roles as well. I observe a similar pattern, to a lesser degree, with recent Under Secretary of the Army appointees (Table 2).

⁹ Securities and Exchange Commission data on 250 largest companies (revenue) as reported by Standard & Poor's.

¹⁰ Based on 2019 median pay reported by Standard & Poor's for large defense contractors (>\$10B revenue) for government affairs and CEO roles.

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Table 1.

Recent Secretary of the Army Careers						
Incumbent	Pre-Appointment Employment		Sec Army Term		Post-Appointment Employment	
	Role Prior to SecArmy	Estimated Compensation	Years	Months in Role	Role Post-SecArmy	Estimated Compensation
Eric Fanning	Legislative and Dept of Defense roles	<\$200,000	2016-2017	8	CEO, Aerospace Industries Association Director, Center for a New American Security	\$1,000,000/yr. ¹¹ \$0
John McHugh	9-term representative in Congress	<\$175,000	2009-2015	70	Government Affairs Counselor, KL Gates	Unknown. Assume >\$400,000/yr ¹²
Pete Geren	Senate assistant, 4 terms in US House	<\$175,000	2007-2009	26	CEO of Sid Richardson Foundation	\$700,000/yr ¹³
Francis Harvey	Career as private-sector executive	Unknown	2004-2007	28	Partner with Paladin Capital	Unknown

Table 2.

Recent Under Secretary of the Army Careers						
Incumbent	Pre-Appointment Employment		UnderSec Army Term		Post-Appointment Employment	
	Role Prior to SecArmy	Estimated Compensation	Years	Months in Role	Role Post-SecArmy	Estimated Compensation
Patrick Murphy	Attorney and legislator	<\$200,000; Unknown	2016-2017	12	Co-Founder of WorkMerk, a workflow technology company	Unknown
Eric Fanning (UnderSec, then SecArmy)	Legislative and Dept of Defense roles	<\$200,000	2015-2016	4	CEO, Aerospace Industries Association Director, Center for a New American Security	\$1,000,000/yr \$0
Brad Carson	Various legal, military and private sector roles	<\$250,000	2014-2015	15	Senior Advisor, Boston Consulting Group	Unknown; Assume <\$500,000/yr ¹⁴
Joseph Westphal	Attorney and university professor	<\$250,000	2009-2014	55	Senior Advisor, Korn-Ferry	Unknown; Assume \$300,000-\$500,000/yr ¹¹
Nelson Ford	Health care executive, then assistant secretary roles in defense	Unknown	2007-2009	13	CEO of LMI (Non-profit think tank)	\$1,200,000/yr ¹⁵
Pete Geren (also SecArmy)	Senate assistant, 4 terms in US House	<\$175,000	2007-2009	26	CEO of Sid Richardson Foundation	\$700,000/yr

The SecArmy appointment or the Under SecArmy appointment would have substantial value to Mr. Calk's career by expanding his skill set beyond mortgage origination, making him an attractive candidate for a board seat at a defense contractor or at any company serving veterans. It may also open the door for a major role in future government lobbying and related think tanks. Such an

¹¹ Mr. Fanning's predecessor, David Melcher received \$1,301,989 in compensation for 11 months of service in 2017.

¹² With McHugh's experience and insight, a salary in the \$400,000-\$500,000 range would be common.

¹³ Form 990 for 2010 indicated over \$600,000 in compensation. 2017 form 990 indicated over \$700,000 in compensation.

¹⁴ Estimate only, based on Boston Consulting Group and Korn Ferry internal practices.

¹⁵ Logistics Management Institute Form 990 disclosure, 2017

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appointment would also benefit the Bank. By virtue of either appointment within the Army's civilian leadership, the Bank and Mr. Calk are provided instant credentialization of their competence and receive public reinforcement of their veteran-oriented marketing message. Consequently, either appointment would be of material benefit to Mr. Calk and the Bank, and worth some value exponentially in excess of \$1,000.

Benefit of a Presidential Appointment to Federal Savings Bank

Companies also benefit from their executives securing high-level executive branch roles. This benefit is not in the form of human capital, but in association and publicity. The credentialization of the individual as an expert can also benefit the individual's employer. For example, Goldman Sachs' credibility as a premier investment bank is bolstered every time a Treasury Secretary or Undersecretary is appointed from the firm. The honor of being appointed, or even interviewed to a presidential appointment, brings value to Federal Savings Bank through increased publicity surrounding the inferred caliber of Bank management. Because of Mr. Calk's 67% ownership of Federal Savings Bank / National Bancorp Holdings¹⁶, a significant portion of whatever benefit the bank realizes is passed directly to Mr. Calk.

The value to a company brand through presidential appointment is recognized by some company policies and actions. For example, when Jack Lew left Citigroup in 2009 to become Treasury Secretary, compensation that would have otherwise been forfeited was granted to him under an employment agreement provision that created an exception for employment terminations relating to "high level government service" roles¹⁷. A similar provision was in John Snow's employment agreement (Treasury Secretary 2003-2006)¹⁸. These companies recognize the branding value of a CEO resigning to accept a high-level cabinet position and attempt to remove any economic barriers or penalties for the executive. Even if the CEO were to never return to the corporation, the corporation benefits from the visibility, publicity, and access created by the appointment and for the term of the appointment.

Any presidential appointment involving the military is particularly beneficial to Federal Savings Bank. Presidential appointment would provide access to the Secretaries of Treasury, Commerce, HUD and Veterans Affairs, all potentially valuable for Mr. Calk and FSBs continued success, and otherwise well outside the Bank's sphere of influence and access. Furthermore, the Bank has invested in marketing itself as veteran owned¹⁹ and Mr. Calk has been quoted numerous times in media reports commenting on and advocating for home ownership for veterans. The appointment of Mr. Calk to the SecArmy or Under SecArmy role, where he would be civilian face of active military and veterans, would clearly benefit Federal Savings Bank.

With two traditional branches in Chicago and 31 loan production offices nationwide, the Bank clearly operated to sell mortgage products on a national platform rather than collect deposits as a community bank²⁰. With an appointment comes visibility is on a national scale, bolstering the key

¹⁶ Annual Report of Holding Companies-FR Y-6, National Bancorp Holdings, Inc.

¹⁷ <https://www.businessinsider.com/citis-government-job-bonus-for-jack-lew-2013-2>

¹⁸ <https://www.washingtonpost.com/archive/business/2002/12/24/track-of-a-crisis-manager/f1eafbe8-1c33-40eb-89fd-6e0bfb83a4d/>

¹⁹ <https://www.thefederalsavingsbank.com/about/overview>

²⁰ According to their website, FSB originates over \$4.2B in mortgages but has less than \$400M in assets (2018).

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marketing message of Federal Savings Bank and directly benefitting the Bank in attracting customers, employees, investors, and potentially even acquirers.

Of course, this can have negative consequences in the event of perceived poor performance or controversial actions. For example, after the story surrounding the Federal Savings Bank loans to Paul Manafort, American Banker elected to run a negative story about Mr. Calk's employee training arrangement with the city of Chicago²¹. Without Mr. Calk's increased visibility through the President's advisory council and the Manafort news, it is doubtful American Banker would have featured the story. Similarly, American Banker also published a negative article on Mr. Calk's strained relationship with Howard Lorber (Vector Group)²², who also served on then candidate-Trump's Economic Advisory Council. Even accounting for the risk of negative consequences, participating on the advisory council and potentially serving in a leadership position within the federal government relating to the Bank's core business focus has a significant positive value on an expected value basis.

Intrinsic Benefits

Appointments have benefit beyond direct financial rewards. Service in a prestigious role is viewed by itself as something of value. This is evidenced by large campaign donors receiving ambassador roles in pleasant environment. In a very real sense, these appointments have intrinsic benefits proportional to the value contributed by the appointee to the campaign.

The SecArmy and Under SecArmy roles bring substantial opportunity to network with corporate America, various governmental agencies and international leaders, even if the individual's career is at its logical end and no further employment is contemplated. The intrinsic value of an appointment cannot be overstated. In its extreme, consider the Secretary of the Treasury role. Appointees generally late in their career are paid \$199,700 per year for their service, although they made that amount in a month, or even a week, in prior private-sector roles²³. They accept the role for its intrinsic rewards including social status, engagement with world leaders, and for its responsibility in addressing global challenges. They also accept the role knowing that following their term of service, however long or short it may be, they will continue to enjoy the benefits of their experience in continuing business opportunities. Also, like knighthood, protocol dictates they be publicly referred to as Mr. (or Madam) Secretary after their service ends, reminding everyone of their service.

In the case of Mr. Calk, it is reasonable to assume his regular business dealings as a mortgage banker do not expose him to the some of the nation's most wealthy and powerful individuals. His appointment to the Economic Advisory Council provided him with the opportunity to network with billionaires and titans of U.S. industry and increase his visibility throughout the business

²¹ See American Banker article on Calk's dealings with the city of Chicago, which became news to a national audience following Calk's publicity surrounding the Manafort loans. <https://www.americanbanker.com/news/bank-ceos-fire-and-rehire-maneuver-reaps-windfall-at-taxpayer-expense>

²² <https://www.americanbanker.com/news/the-community-banker-who-got-tangled-up-in-the-russia-probe>

²³ Stephen Mnuchin is reported to have made in excess of \$160,000,000 in the year prior to his appointment as Secretary of the Treasury; Although Jack Lew also served in a number of government roles, from 2006-2008 he served as COO for Citigroup; Tim Geithner was an outlier, serving as Fed President for the same salary as

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community.²⁴ Subsequent appointment would further increase his access, opening doors that for Mr. Calk, as the CEO of a \$400M mortgage originator would not normally be open to him.

Conclusions

The value of a presidential appointment can be viewed from the perspective of the individual and from the perspective of the organization. While these are two distinct benefits, with Mr. Calk's ownership the value of either passes directly to him.

Value to the Individual

1. Appointment to the Economic Advisory Council

- From the individual perspective, the appointment to the Economic Advisory Council provides Mr. Calk with the social status and affiliation he might not otherwise never achieve. The value of social status and affiliation can be determined by the inferred purchase price – what someone would pay to acquire them. In comparison to the premiums paid for country clubs and for appointment to charitable boards, the appointment to candidate Trump's Economic Advisory Council would alone seem more valuable than \$1,000.
- Appointment to the unpaid Economic Advisory Council does not have any direct monetary value, but it nevertheless has value. The value of the unpaid role can be defined by the time and expense incurred by the appointees for their participation. Using simple math, the personal value of the appointment is, at a very minimum, the sum of the value of personal time and expense incurred in participation, including the time and expense incurred in obtaining the appointment, and well in excess of \$1,000.
- The bank received value from the appointment of Calk to the Economic Advisory Council in 2016. Association of the CEO with captains of industry, finance and politics created favorable publicity for the institution, effectively bolstering the image of the small bank by association with much larger, more successful organization, enhancing the perceived competence of the organization to customers, employees and investors. The favorable press and enhanced image of the institution has a value well in excess of \$1,000.

²⁴ Chicago Tribune, May 10, 2017 "Resident Steve Calk is used to having a high profile as founder and CEO of the Federal Savings Bank, and more recently as a senior economic adviser to President Donald Trump. Calk, 52, has been named a Midwest Regional finalist in the 2017 Ernst & Young Entrepreneur of the Year Award."
<https://www.chicagotribune.com/suburbs/wilmette/news/ct-wml-shout-out-tl-0518-20170510-story.html>

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2. Potential appointment to the SecArmy or Under SecArmy role
 - Whether Calk were to return to the Bank following a presidential Army appointment or travel a different career path, his value as an executive or advisor would be greatly enhanced. He would expect his experience, connections and insights gained from time in either of the senior Army roles would be reflected in his post-appointment earnings.
 - Either presidential appointment has a value greater than the salary paid, as evidenced by executives willing to take reductions in pay to accept the role. The value can be described in terms of the social factors mentioned above, as well as the experience and credentials gained and an expanded business network. This value is observed by the post-appointment earnings of prior appointees.
 - Assuming a 2-year term in office and a ten-year post-appointment career, even a \$100,000 per year benefit to future earnings (higher compensation, board seat retainer, etc.) would have a present value of \$575,000.²⁵
 - Independent of Calk's post-appointment career, the Bank would have received material value from the appointment of Calk to either the SecArmy or Under SecArmy role. A key part of the Bank's marketing message and brand involves home ownership for veterans. Having a former CEO and majority owner serving in a critical civilian leadership role for the Army would be highly valuable to the Bank and result in brand and marketing enhancement well in excess of \$1,000.

In each instance there are no guarantees the benefits of an appointment can ever be monetized, or the social benefits can ever be realized. Recall that some appointees leave in disgrace, others retire without pursuing any future opportunities. However, unknown future events do not change the tangible and intangible value of the appointment, as established by each appointee accepting the role.

Sincerely,



Jeff McCutcheon

²⁵ A \$100,000 increase in earnings, paid for ten years beginning upon the end of Calk's two-year term in the presidential appointment, would result in a present value at the time of appointment of \$575,281 assuming an 8% discount rate.

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EXHIBIT A – Jeff McCutcheon Bio



Jeff McCutcheon is Managing Director and co-founder of Board Advisory, where he leverages over 25 years of experience in executive compensation and management effectiveness to help boards develop and implement solutions that produce optimal business results. Prior to his work advising boards of Fortune 500 companies, Jeff served as the top HR executive for CSX Corporation and held roles leading compensation, HR planning and strategy, and management development for four other Fortune 250 companies. Prior to Board Advisory, he formed McCutcheon, LLC in 2004 to help companies address executive talent strategies, including executive pay and succession, typically in the context of mergers & acquisitions.

At Board Advisory, Jeff helps boards translate key strategic initiatives into actionable executive employment arrangements. His advice to boards reflects his belief that executive pay and succession decisions should be an extension of the underlying business strategy, not a discrete administrative practice.

Jeff has served as an expert witness on executive pay issues, has contributed to the national debate on executive compensation as it pertains to disclosure and valuation of executive equity awards, and served as an advisor to the Secretary of the Treasury. He's spoken at numerous industry events and forums hosted by organizations including The American Banking Association, International Quality and Productivity Council and World at Work. He holds a BA in Business and a master's in Labor and Industrial Relations from Michigan State University.

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EXHIBIT B – Stephen Calk Bio from FSB Website²⁶

Stephen M. Calk is the Founder, Chairman and Chief Executive Officer of National Bancorp Holdings, A Bank Holding Company; The Federal Savings Bank, a Federally Chartered Savings Bank with annual asset turnover of more than US \$4.2 Billion, and the former Chicago Bancorp.

Mr. Calk was nominated by Congressman Phillip Crane and subsequently appointed to the United States Military Academy Preparatory School at West Point Prep. He was commissioned as an Army Officer on May 25th, 1985. He is a graduate of the United States Army Aviation School and served in both active and reserve status as a combat tactical helicopter pilot and commander for over 16 years. Mr. Calk received his bachelor's degree from the University of Illinois at Champaign/Urbana, holds a Master of Business Administration Degree from the J.L. Kellogg Graduate School of Management at Northwestern University, and a PPL from Harvard Business School.

Mr. Calk is a nationally recognized expert in the fields of finance, economics and real estate finance as well as National Security and Military issues. In the 2016/2017 election Mr. Calk served as a Senior Economic Advisor to the President Elect of the United States. In 2017 Mr. Calk was named EY Entrepreneur of the Year finalist, Midwest division.

He is regularly featured in print and on air national news programs including CNN, Fox News, MSNBC, Fox Business News, CNBC Squawk Box, CBS evening news, The Wall Street Journal, New York Times, Washington Post, Reuters, Money, Crain's Chicago Business, the Chicago Tribune and Chicago Sun Times. He has served on the Board of Directors, Advisory Board of Directors or Customer Advisory Board of Directors for various public and private companies including JP Morgan Chase's Chase Manhattan Mortgage Corp., Ohio Savings Bank, CitiMortgage, Bank of America and the former General Electric Mortgage Insurance Company. Mr. Calk has served as an advisor to the Governor of the State of Illinois, the Commissioner of Banks and Real Estate and the Office of Professional Regulation for the State of Illinois on matters of Mortgage Banking and Real Estate finance. He has served his community on many civic and philanthropic boards including serving as the Chairman of the United States 10th Congressional District's Service Academy Selection Committee and as a Certified Leader in the Boy Scouts of America. He has served as a Trustee for the University of Illinois' St. John's Catholic Newman Center and on the Board of The USO of Illinois. He has been a member of the Chicago Chapter of the World Presidents Organization and Young Presidents Organization since 2002 where he has served as the Forum Chairman, Membership Chairman and Education Chairman. He is an outspoken proponent and advocate of Veteran housing needs. Mr. Calk is a veracious trainer and mentor of junior military officers and Senior NCO's prior to taking command positions or returning to civilian life after service to their country. He has also served on numerous civic and philanthropic boards and is a member of The Economic Club of Chicago, Halter Wildlife Preserve and The Chicago Club where he served on the Membership Commission.

Under Mr. Calk's leadership, The Federal Savings Bank became profitable within its first 3 months of operations and by the end of its first year of operation was named by the American Bankers Association Journal as the most profitable community bank in America with assets its size; an honor it has held the last five years in a row. His experience and accomplishments have combined to build both The Federal Savings Bank and the former Chicago Bancorp into a dynamic team of professionals who adhere to the highest standards of excellence while funding tens of billions of dollars in loans in the last two decades.

²⁶ <https://www.thefederalsavingsbank.com/about/leadership>