New York Society of Security Analysts

NYSSA Corporate Governance Committee

What Analysts Can Find in Compensation Reports

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Introduction

- In 2006, the SEC released Final Rules which required companies to enhance their current disclosure of executive & director compensation.
- In Release 2007-214 entitled *Commission Staff Publishes Its Observations in the Review of Executive Compensation Disclosure* SEC addressed several areas to which companies will be required to enhance their executive and director compensation disclosure.
- Among their findings, the SEC noted that more details need to be addressed with respect to performance based compensation.
- Although companies have been uncomfortable in disclosing more detail, the SEC has indicated they will not relent on this requirement.

SEC Comments Regarding Executive Compensation Disclosure

- **The SEC mailed out over 300 letters to companies requesting further disclosure or the rationale behind lack of adequate disclosure.**
- Approximately 40% of all companies have disclosed **ALL** their performance metrics in accordance with SEC Rules.
- SEC determined that companies need to do a better job of focusing on “Why and How” they arrive at specific executive compensation decisions and policies.
  - Companies should focus on helping the reader understand the “basis and context” for granting different types of executive compensation.
- Companies need to be better focused on using plain language so that the information provided in the report can be understood by the “lay reader”.
  - Companies need to present the “big picture” in an executive summary, followed by the details with compensation data in a tabular format.

SEC Comments Regarding Executive Compensation Disclosure

- Companies need to do a better job explaining the principles they used to determine performance targets.
  - Companies need to "clearly lay out the way that qualitative inputs are ultimately translated into objective pay determinations".
- Performance Targets which are material to a company's policy and decision making process must be disclosed.
  - If disclosing these targets could cause competitive harm to a company, the company can contact the SEC through a confidential letter explaining such. Please note that in the event a company makes this assertion, it is likely that the SEC will challenge it.
- The Compensation Disclosure & Analysis ("CD&A") should discuss most significant items with which the compensation committee wrestled during the year.
- Included within the discussion should be the key issues, what resolutions were made with respect to these issues, and who took part in making compensation decisions (especially management).

Why Are Companies Reluctant to Disclose Performance Goal Metrics?

- Companies feel that disclosure limits competitive posture.
- Companies feel goals might be misunderstood by shareholders.
  - This is especially true where guidance and projections for valuation models are different from those used by analysts.
- **The above is of no concern to the SEC** – Companies must adequately disclose executive compensation, including performance metrics.

Why should financial analysts pay attention to the new SEC-mandated executive compensation disclosure rules?

- CD&A can provide analysts with another tool to assist with the valuing of a company.

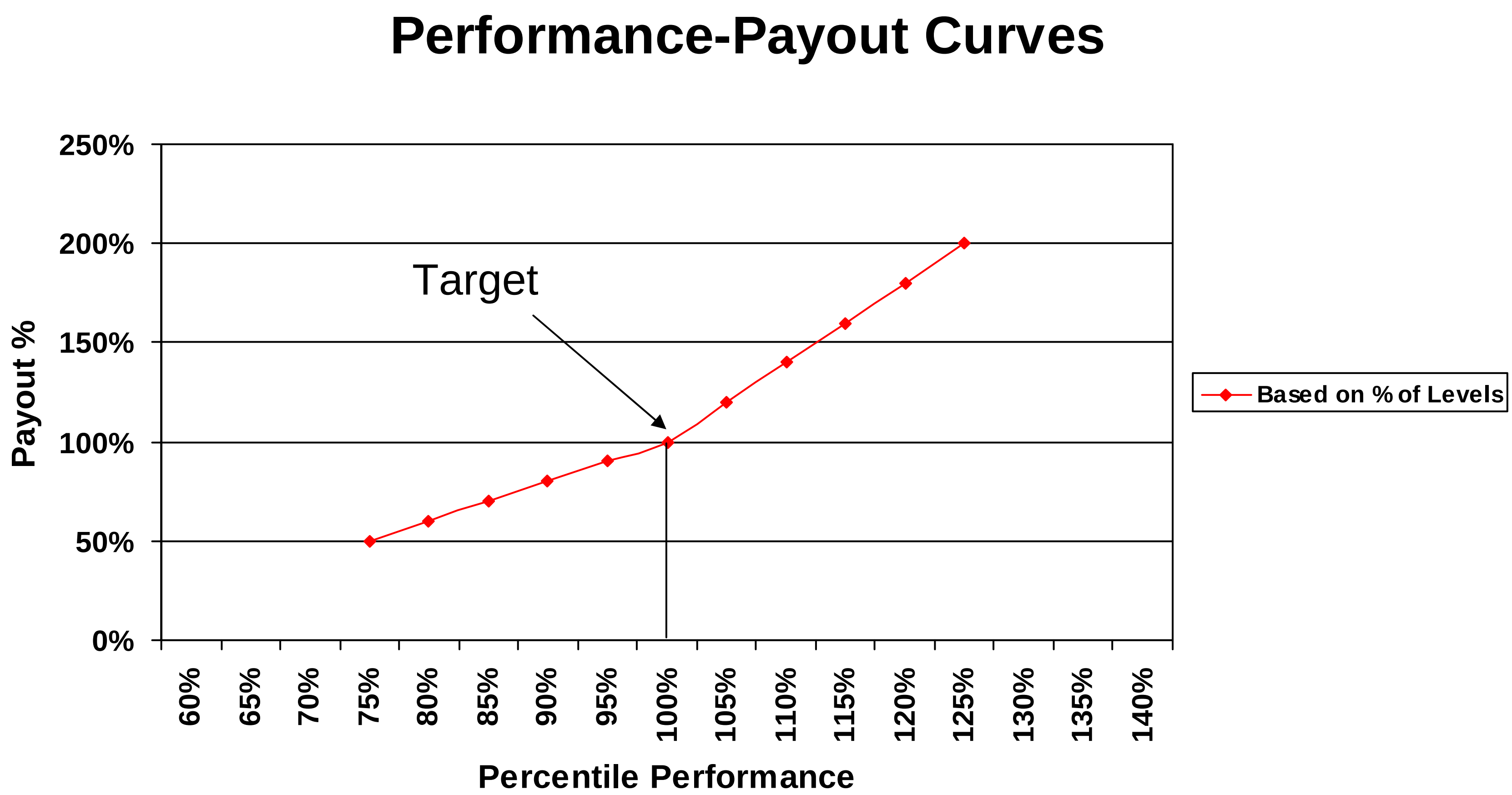
- CD&A contains valuable information, specifically as it relates to:
  - **Incentive Structures:** How does the Board and Management measure the success or failure of the company year by year and over the long term? How closely are executives' efforts tied to growth in shareholder value?
  - **Performance Measures:** What financial criteria drive the payout of annual bonuses?
  - **Indicator of Management Incentives and Confidence:** What percentages or amounts are used to determine threshold, target, and maximum bonus levels. Have these metrics changed, and if so, could this change be interpreted as a change in management confidence (both positive and negative)?

Incentive Structures - Short Term Incentive

- Based on random sample of 119 *Fortune 300* companies:
  - 47% have one financial metric
  - 37% have two financial metrics
  - 13% have three financial metrics
  - 3% have four financial metrics
- Comparison of “2007 Performance Metric Study of Fortune 300” with 2000 performance metric study of top 100 performing companies as published in *Pay to Win How America’s Successful Companies Pay Their Executives.*

Performance Metric	Prevalence-2007	Prevalence - 2000	Change
Income/Earnings	31%	33%	-2%
EPS	22%	20%	2%
Return Ratios	16%	10%	6%
Sales Growth	11%	11%	0%
Cash Flow	10%	7%	3%
Economic Profit	4%	2%	2%
Other	4%	1%	3%
TSR	2%	8%	-6%
Stock Price	>1%	1%	-1%
Cost	>1%	7%	-7%

Short Term Incentive Relative Performance - Typical

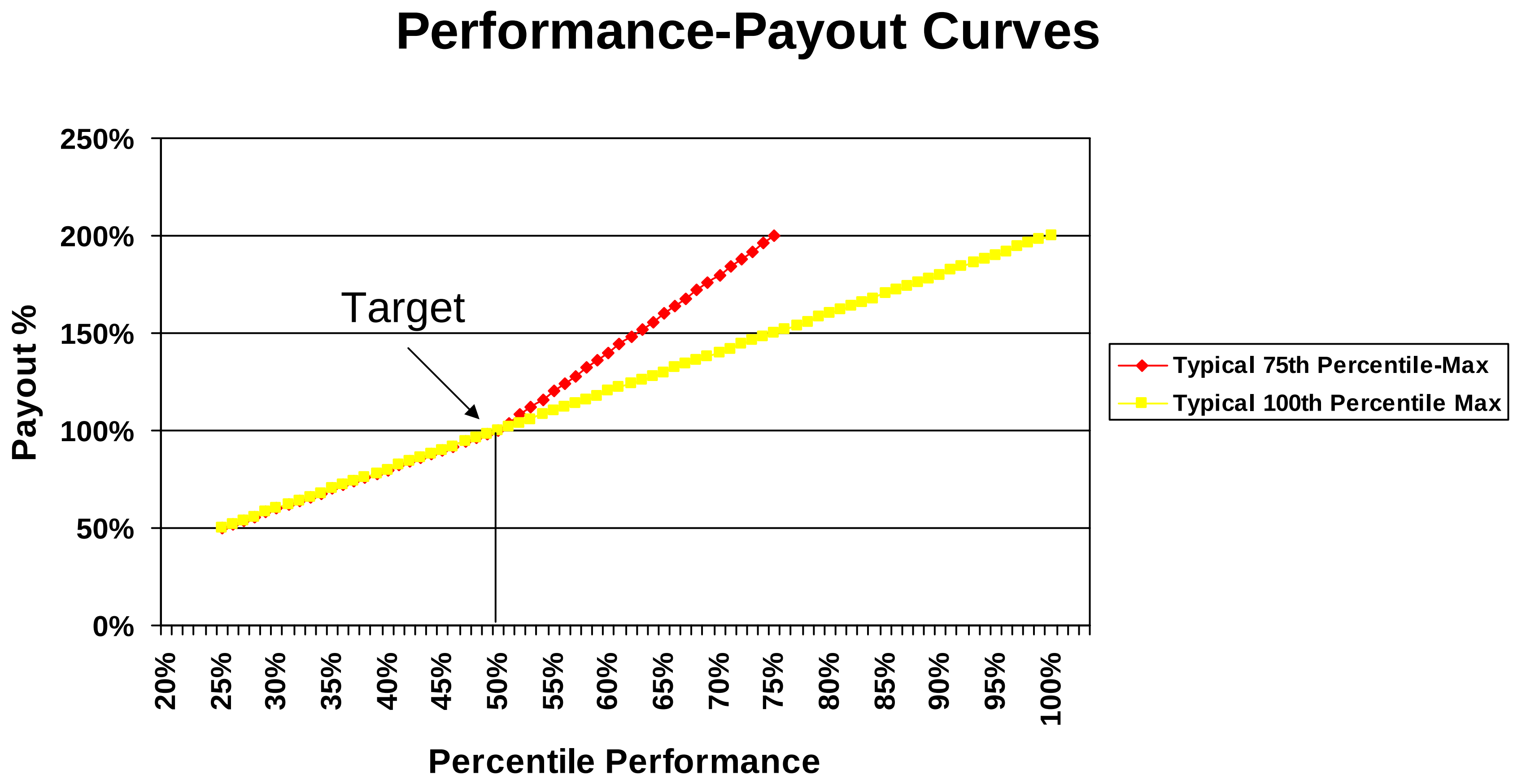


Incentive Structures - Long Term Incentive

- Based on a random sample of 172 *Fortune 300* companies:
- Approximately three-quarters have long-term incentive plans with metrics - typically covering next three years.
  - 58% have one financial metric
  - 33% have two financial metrics
  - 7% have three financial metrics
  - 1% have four financial metrics
- Comparison of "2007 Performance Metric Study" with "2000 Performance Metric Study" published in *Pay to Win How America's Successful Companies Pay Their Executives.*

Performance Metric	Prevalence - 2007	Prevalence - 2000	Change
TSR	25%	30%	-5%
Return Ratios	22%	27%	-5%
EPS	19%	24%	-5%
Income/Earnings	11%	4%	7%
Sales Growth	8%	4%	4%
Other	3%	0%	3%
Cash Flow	5%	8%	-3%
Stock Price	3%	0%	3%
Economic Profit	2%	0%	2%
Cost	1%	3%	-2%

Long Term Incentive Relative Performance - Typical



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Evaluating a Company's Executive Compensation Program - What to Look for and Where to Find it

- In 2006 most companies filed their executive compensation disclosures within the company Proxy Statement.
- A small number of companies filed their disclosure within their form 10-K.
- The executive and director compensation disclosure consists of a narrative and summary tables.
- CD&A - This section contains much of the written narrative. Included within this section are the details behind both short-term and long-term incentive plans. This information includes all equity arrangements.
- Also included within the CD&A is information which relates to post employment compensation and director compensation.

Evaluating a Company's Executive Compensation Program - What to Look for and Where to Find it

- Tables –various required tables are included within the disclosure, specifically:
  - Summary Compensation Table, Grants of Plan Based Awards, Outstanding Awards at Fiscal Year End, Options Exercised and Stock Vested, Pension Benefits, and Non-Qualified Deferred Compensation.
- Companies will often use other tables to enhance the clarity of the disclosure.
  - This is commonly used for director compensation and post termination benefits.
  - The SEC has encouraged this type of reporting.

Potential Impact of Compensation on EPS

- Executive compensation can impact EPS in certain situations, specifically:

  – Start-up companies where significant amounts of performance equity are granted.

  – Change of control payouts, especially those where a gross-up is paid for excise taxes.

  – Large equity grants could significantly dilute stock ownership of a company, resulting in a lowering of EPS.

  – FAS 123R requires companies to expense options using GAAP approved valuation models (such as the Black-Scholes option pricing model) rather than intrinsic value. This will likely result in an increased effect on EPS.

Effect on Earnings per Share

Stock Price	$25.00
Effective Tax Rate	40%

Performance Shares--Relative TSR

# of Restricted Shares	500,000
Monte Carlo Value/Share Calc (20% Disc)	$20.00
Grant Value	$10,000,000
Grant Value as % of Market Capitalization	0.80%
# Vesting Years (Cliff)	4
Cost per yr	$2,500,000
After Tax Cost per yr	$1,500,000
EPS Charge	$0.03

Annual EPS Assuming 8% Return	$2.00
Total Annual EPS Impact	1.50%

Good Examples of Proxy Disclosures

- United States Steel (See Appendix A)
- Weyerhaeuser (See Appendix B)
- NIKE Inc. (See Appendix C)

United States Steel Example – Short Term Incentive Awards (Based on Company's 2007 Proxy See Appendix A)

- Company has two performance measure with weights of 80% on return on capital employed ("ROCE") and 20% on steel shipments.

Performance	ROCE Payout as % of Target Award	Shipment Tons as a Percent of the Target Award	Total Award as a Percent of Target
Threshold	40%	10%	50%
Target	80%	20%	100%
Maximum	160%	40%	200%

- In 2006, performance range for ROCE was 7.5% at threshold, 15% at target and 22.5% at maximum.

- The performance range for steel shipments (in tons) was 17.7 million, 22.1 million and 26.5 million.

- Company can adjust award up or down by 15% based on "citizenship measures".
  - Increased safety of workforce
  - Increased diversity of workforce
  - Reduction of Company's environmental emissions

United States Steel Example – Long Term Incentive Awards (Based on Company's 2007 Proxy See Appendix A)

- Stock Options and Restricted Stock
  - Vest over a three-year period, subject to continued employment
  - Vesting is not tied to performance

- Performance Awards
  - Earned based on company's total shareholder return ("TSR")
  - Three-year performance period
  - Compared to peer group of companies
  - Committee chose to use two measurement periods to assure that the beginning and ending measurements will occur after the market has absorbed the company's latest earnings information.

Performance	Performance Rank percentile based on TSR *	Target Payout
Maximum	75th percentile of peer companies	200%
Target	50th percentile of peer companies	100%
Threshold	25th percentile of peer companies	50%

  - An interpolated number of shares is paid for performance between threshold and target, and between target and maximum. No shares are paid for total shareholder return below the 25th percentile.

Weyerhaeuser Example – Short Term Incentive Awards (Based on Company's 2007 Proxy See Appendix B)

- Main performance measure is return on net asset performance ("RONA") – for the CEO includes results of Weyerhaeuser Real Estate Co. ("WRECO"), for all other employees WRECO results are excluded.

- RONA is defined as EBIT divided by average net assets.

Performance	RONA Performance Objectives in 2006 (Actual)	Total Award as a Percent of Target
Threshold	5.5%	40%
Target	11% for CEO; 10% all other employees	100%
Maximum	17%	300%

- In 2006, performance range for RONA was 5.5% at threshold, 11% at target and 17% at maximum for the CEO.

- Goals are established using a variety of factors including dividend funding levels, the company's cost of capital, historical company and peer RONA performance and internal benchmarks.

Weyerhaeuser Example – Long Term Incentive Awards (Based on Company's 2007 Proxy See Appendix B)

- Stock Options and Restricted Stock Units
  - Vest over a four-year period, subject to continued employment
  - Vesting is not tied to performance

- Performance Awards
  - Earned based on return on net asset spread ("RONA Spread")
  - Three year performance period
  - Compared to peer group of companies
  - RONA Spread equals RONA minus the benchmark RONA rate, defined as pre-tax cost of dividends plus interest expense, for WY and its peers.

Performance	Performance Rank percentile based on RONA	Target Payout
Maximum	75th percentile of peer companies	200%
Target	50th percentile of peer companies	100%
Threshold	25th percentile of peer companies	20%

  - An interpolated number of shares is paid for performance between threshold and target, and between target and maximum. No shares are paid for performance below the 25th percentile.

NIKE Example – Short Term Incentive Awards (Based on Company's 2007 Proxy See Appendix C)

- Corporation's short term incentive awards are paid through the executive Performance Sharing Plan ("PSP"). The metric used to measure performance is called "PTI".

- PTI is defined as income before income taxes before the effect of any acquisitions, divestitures or accounting changes.

Performance	PTI (expressed in millions)	Total Award as a Percent of Target
Threshold	$1,991	50%
Target	$2,212	100%
Maximum	$2,433	150%

- In 2006 company achieved a PTI of $2,200 (99.5% of target). This achievement resulted in a payout of 97%.

- For 2007 company disclosed that they are adjusting PTI downward by $146 million to reflect a FAS 123R charge. Company disclosed that this amount represents a 10% PTI increase over prior years results on a comparable basis.

NIKE Example – Long Term Incentive Awards (Based on Company's 2007 Proxy See Appendix C)

- Stock Options and Restricted Stock Units
  - Stock options vest over a four-year period, subject to continued employment
  - Restricted Stock vest over a three-year period, subject to continued employment
  - Vesting is not tied to performance
- Performance Awards
  - Earned base on compounded annual growth rate ("CAGR") for the following metrics:
    - 50% on cumulative revenues
    - 50% on cumulative earnings per share ("EPS") before the effect of acquisitions, divestitures and accounting changes for the period
  - Three year performance period (2007-2009).
  - For purposes of computing CAGR, Company adjusted 2006 EPS downward by 37 cents per share to reflect FAS 123R.

Performance	Performance based on EPS - CAGR	Target Payout	Performance based on Revenue CAGR	Target Payout
Maximum	7.8%	150%	13.9%	200%
Target	6.0%	100%	12.0%	100%
Threshold	1.4%	50%	9.2%	50%

  - Company also provided a proposal to set target award payouts for fiscal 2008-2010 based on 13% CAGR in EPS, and 8% CAGR in Revenues.

Appendix A

- United States Steel

Short-Term Incentive Awards

U. S. Steel's short-term incentive compensation program, the 2005 Annual Incentive Compensation Plan, approved by the shareholders on April 26, 2005, is a non-equity incentive program designed to provide performance based compensation that retains the tax deductibility of short-term incentive awards. The program's objective is to align our executives' compensation with the achievement of performance goals that support our business strategy. Performance goals are based on the short-term expectations of our business and are meant to be challenging yet achievable. The appropriateness of these goals is further validated by considering the prospective business environment for the upcoming year, reviewing historical performance among our peers and a broader index of durable goods manufacturers and conducting probability analyses based on historical results. We believe these external-based analyses provide scrutiny and an optimal balance to our goal-setting process and provide the Committee with adequate information on which to base its decisions.

The following example explains the meaning of the terms used in the discussion below (the reader may want to refer back to this example after having read the relevant discussion):

> *The "calculated payout rate" (for example, 80 percent for achieving the 2006 "target performance" of 15 percent ROCE) times the "target award" (the award to an executive for meeting target performances) is equal to the "calculated award" (the maximum amount payable to the executive, absent the exercise of downward discretion by the Committee) for the ROCE performance measure. If the Committee exercises downward discretion, the "award amount" (the amount actually paid to the executive under the program) will be less than the calculated award.*

For 2006, the Corporation has selected two main performance measures to be complemented by three additional measures (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Estimated Future Payouts Under Non-Equity Incentive Plan Awards"* for the definitions of these measures). The main performance measures, return on capital employed ("ROCE") and steel shipments, are two critical measures of overall corporate and operational performance that link to our business strategy. Of these two measures, the greatest emphasis is placed on ROCE at an 80 percent weighting with the remaining 20 percent placed on steel shipments. A ROCE performance measure, with its corresponding award, is intended to keep executives focused on maximizing the Corporation's return from the use of its resources over the near-term. The steel shipments performance measure is intended to keep executives focused on operational objectives using a preference for shipments over production to avoid providing incentive to build inventory without appropriate demand for our products. The following table demonstrates the weighting of the two main performance measures:

Performance	**ROCE Payout as a Percent of the Target Award**	**Shipment Tons Payout as a Percent of the Target Award**	**Total Award as a Percent of the Target Award**
Threshold	40%	10%	50%
Target	80%	20%	100%
Maximum	160%	40%	200%

A performance range and target is developed for each of the two main performance measures (ROCE and steel shipments) and a target award is established to correspond with the target performance. An executive's calculated award is increased or decreased from the target award based on actual performance above or below the target performance for each of the performance measures. The width of the performance range considers the cyclical nature of our industry and business. Subject to the Committee's downward discretion, a calculated award is earned for each performance measure once the "threshold" performance target has been achieved for that measure. Actual performance below threshold performance results in no payout for that particular measure. Actual performance must equal or exceed the "maximum" performance target to achieve a maximum award for that measure. Absent the Committee's application of downward discretion, actual performance between the threshold and target, or the target and maximum, performance levels results in an interpolated award for that performance measure. In 2006, the performance range for ROCE was 7.5 percent at threshold, 15 percent at target and 22.5 percent at maximum. The performance range for steel shipments was 17.7 million tons at threshold, 22.1 million tons at target and 26.5 million tons at maximum.

The short-term incentive compensation plan uses three additional performance measures, referred to as "citizenship" measures. The Committee believes that any responsible, well-functioning company must maintain certain citizenship standards and the Committee desires to reward behavior that promotes the increased safety of our workforce, the increased diversity of our workforce and the reduction of the Corporation's environmental emissions. These three citizenship measures are used as modifiers, each capable of increasing or decreasing an executive's calculated award by 5 percent of the target award.

Target performances for our citizenship measures are based on improvement over prior year's performance with the safety performance measure requiring a specified improvement to reach the target performance. Meeting a citizenship measure's target performance does not change the executive's calculated award; however, failure to meet a citizenship measure's target performance produces a five percentage point (five percent of the target award) decrease to an executive's calculated award and exceeding the target performance would yield a five percentage point (five percent of the target award) increase to the calculated award.

Short-term incentive awards are paid in cash and can range from 0 percent to 200 percent of an executive's target award based upon actual corporate performance under the two main performance measures. If performances for all three citizenship measures exceed the target performance objectives, an additional 15 percentage points can be earned, resulting in a maximum opportunity of 215 percent of an executive's target award. Failure to achieve target performances for all three citizenship measures would result in a maximum deduction of 15 percent of the target award from the calculated award for the two main performance measures.

The target award is determined by the Committee for each performance period by a benchmark analysis of comparative positions at the peer group of companies and a calculation of the percent of salary each such comparative position was paid in the form of short-term incentive compensation. This percentage is applied to each executive's base salary to give the Committee the market-level short-term incentive compensation for that executive. The Committee typically increases the target short-term incentive compensation by about 20 percentage points above the market median to reflect the Committee's view that the Corporation's executives are expected to perform at high levels individually and the fact that the Corporation has comparatively fewer executives than the peer group of companies. The increased target award allows the Committee to consider the individual performance of each executive for purposes of exercising discretion to reduce compensation that would otherwise be awarded in connection with the Corporation's attainment of performance goals. An award at these increased levels would indicate superior individual performance by the executive during the performance period. Individual performance is evaluated using non-objective criteria (see *"Setting Executive Compensation"* for a discussion of individual performance measures) and, in the case of executives other than the Chief Executive Officer, with input from the Chief Executive Officer. The table below shows the 2006 target awards and the Committee's exercise of downward discretion in determining the award amount for each of the named executive officers. In the aggregate, the Committee's exercise of downward discretion effectively reduced the target awards by 10 percent of base salary for the named executive officers in 2006.

Executive	Target Multiple (1)	Target Award (2)	Calculated Award (3)	Award Amount
J. P. Surma	130%	$ 1,378,010	$ 2,673,340	$ 2,450,000
J. H. Goodish	105%	$ 661,513	$ 1,283,334	$ 1,150,000
D. D. Sandman	100%	$ 574,740	$ 1,114,996	$ 950,000
G. R. Haggerty	100%	$ 515,004	$ 999,108	$ 975,000
D. H. Lohr	95%	$ 370,511	$ 718,792	$ 650,000

(1) Target Multiple is the number, expressed as a percentage of Base Salary, that is multiplied by the Base Salary to calculate the Target Award. Base Salary is the rate of pay determined by annualizing the salary for the last month of the performance period (i.e., December 2006 salary multiplied by 12).

(2) Target Award is the amount that would be paid to the executive assuming (a) the Corporation achieves its target performance objectives and (b) the Committee does not exercise downward discretion.

(3) Calculated award is the award that would be payable, absent the exercise of downward discretion by the Committee, given the Corporation's 2006 actual performance. That is, the calculated award is equal to the calculated payout rate (for a discussion of the 2006 calculated payout rate, see the following paragraph) times the target award.

The Committee determined prior to payment of the awards for 2006 performance that the pre-established, applicable performance levels required under the 2005 Annual Incentive Compensation Plan were accomplished. Our actual ROCE for 2006 was 28.5 percent. With the 80 percent weighting given to the ROCE performance measure, this performance resulted in a calculated payout rate of 160 percent of the target award. Our actual level of steel shipments for 2006 was 21.6 million tons, resulting in a calculated payout rate of 19 percent of the target award given the 20 percent weighting assigned to this performance measure. Improvement over the prior year for all of the citizenship measures resulted in a calculated payout of 15 percent of the target award with 5 percent each for safety performance, workforce diversity and environmental emission improvement. The total calculated payout rate for 2006 was 194 percent (160 percent + 19 percent + 15 percent); however, based on input from its independent consultant, and the Chief Executive Officer for executives other than the Chief Executive Officer, the Committee applied the non-objective individual performance evaluations and exercised downward discretion in determining each executive's award amount (for the named executive officers, see the table above).

The Committee believes the use of short-term incentive awards as a portion of an executive's overall compensation fits the Committee's objective of linking pay to performance because it puts a portion of the executive's compensation at risk and subjects that portion to the achievement of the Corporation's short-term performance goals.

Long-Term Incentive Awards and Stock Ownership

The objectives of the Corporation's long-term incentive program are to align a portion of an executive's compensation to growth in shareholder value, to provide each executive a means of accumulating shares, thereby fostering the ownership culture the Corporation desires, and to serve as a retention device for our executives. The long-term incentive component represents the largest portion of the overall value of the compensation program for our executive officers. Our equity incentives are "at risk," meaning they are designed to increase or decrease in value based on the movement of our stock price. In order to accomplish its overall objectives, the Committee identified the following key objectives for the long-term incentive program. The program should:

- Be performance-based,
- Promote a long-term perspective to complement the short-term perspective of the short-term incentive program,

Stock Options

Stock options are performance-based awards that reward executives for an increase in the Corporation's stock price over the term of the option. The value to executives is limited to any appreciation of our stock price above the option's exercise price after the option becomes exercisable and before it expires. The Committee believes stock options satisfy certain of the Committee's long-term incentive compensation objectives because they:

- Are performance based, rewarding increases in shareholder value,
- Promote an ownership culture by facilitating the accumulation and retention of shares,
- Are cash efficient for the Corporation because they are paid solely in stock, and
- Are tax efficient for the Corporation because they satisfy the requirements of Section 162(m) of the Internal Revenue Code, due to the award limit within the plan, and thereby preserve the deductibility of compensation for corporate tax purposes.

Stock options granted under this program have a term of ten years and vest ratably, subject to continued employment, over three years with one-third of the granted options vesting on each of the first, second and third anniversaries of the grant date (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Estimated Future Payouts Under Equity Incentive Plan Awards—Stock Options"*). The exercise price is determined on the date of grant in accordance with the terms of the shareholder-approved United States Steel Corporation 2005 Stock Incentive Plan; that is, the exercise price of all stock option grants is the average of the high and low stock prices on the date of grant. The date of grant is the date that the Committee approves the grant, which is customarily at its May meeting (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Grant Date"*).

Restricted Stock

Restricted stock awards are full-value shares of stock with vesting provisions that require the continued employment of the executive. The Committee believes restricted stock satisfies certain of the Committee's long-term incentive compensation objectives because it:

- Serves as a retention device for the Corporation by rewarding service and by requiring continued employment in order for the shares to vest,
- Promotes an ownership culture by facilitating the accumulation and retention of shares,
- Promotes a long-term perspective among executives via ratable vesting (i.e., vesting of one-third of the awarded shares annually over three years),
- Considers the historically cyclical nature of our business and provides some stability to our long-term incentive program because restricted stock maintains some value even if our stock price should decrease, and
- Is cash efficient for the Corporation because, except for the taxes paid on behalf of the executive at the time of vesting in exchange for a corresponding reduction in the number of vested shares, it is paid solely in stock.

Restricted stock awards vest ratably, subject to the executive's continued employment, over three years, with one-third vesting on each of the first, second and third anniversaries of the grant date (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Estimated Future Payouts Under Equity Incentive Plan Awards—Restricted Stock"*). The grant date is the date that the Committee approves the grant, which is customarily at its May meeting (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Grant Date"*).

- Promote an ownership culture by facilitating the accumulation and retention of shares,
- Serve as an executive retention device for the Corporation,
- Consider the historically cyclical nature of our industry and provide some stability to our overall compensation program,
- Be cash efficient for the Corporation by emphasizing the use of stock, and
- Be tax efficient for the Corporation.

One or more of the above objectives may be achieved by the use of any of the various equity compensation vehicles available today. However, the Committee believes the use of three equity incentive vehicles best meets the objectives outlined above: service-vesting stock options, service-vesting restricted stock, and performance awards. Under the executive long-term incentive program, the Committee decided the value of each executive's market-based long-term incentive opportunity should be distributed evenly among these three equity incentive vehicles. The Corporation does not time the release of material non-public information around the granting of equity incentive awards, nor does it time the granting of equity incentive awards around the release of material non-public information. Equity grants are usually made at the Committee's May meeting under the Long-Term Incentive Compensation Program, a program under the United States Steel Corporation 2005 Stock Incentive Plan, which was approved by the Corporation's shareholders on April 26, 2005.

In developing equity compensation awards each year, the Committee follows a similar approach to the way it develops salary adjustments and short-term cash incentive opportunities. With the assistance of its independent compensation consultant, the Committee examines the long-term incentive practices of our peer group of companies to determine the 50^{th} percentile long-term incentive opportunity for each executive position. The independent consultant converts the value of the market long-term incentive opportunity into a recommended number of shares to be granted to each executive using a binomial valuation model. When developing his recommendation to the Committee, our Chief Executive Officer may at times apply discretion to suggest increases or decreases to the consultant's recommended grants based upon a non-objective evaluation of an executive's individual performance over the prior year. In 2006, the Committee followed the Chief Executive Officer's recommendations based upon 2005 individual performance (the measures were similar to 2006 individual performance measures, see *"Setting Executive Compensation"* , above), which effectively increased the number of shares granted to some executives and decreased the number of shares granted to other executives. In light of the Corporation's strong 2005 performance, the Committee approved the Chief Executive Officer's recommended changes to the consultant's recommendation resulting in an aggregate of 28,900 additional shares being awarded (approximately half in the form of options with the balance divided 47 percent and 53 percent between restricted shares and performance awards, respectively). No adjustment was made to the consultant's recommendation respecting the Chief Executive Officer's 2006 long-term incentive award.

The Committee believes the use of long-term incentive awards as a substantial portion of an executive's overall compensation fits the Committee's objective of linking an element of pay to long-term corporate performance because it puts a significant portion of the executive's compensation at risk and subjects that portion to changes in the Corporation's stock price. With the longer vesting terms in place for the current long-term incentive awards, their retention value has been increased. Additionally, the use of long-term incentive awards as a substantial portion of an executive's compensation facilitates the Committee's executive stock ownership objectives. The following paragraphs describe and provide additional information regarding the rationale and objectives of the three long-term incentive vehicles provided to U. S. Steel executives.

Performance Awards

Performance awards provide an incentive for executives to earn full-value shares based upon U. S. Steel's total shareholder return over a three-year performance period. The Committee believes performance awards satisfy certain of the Committee's long-term incentive compensation objectives because they:

- Are performance based, rewarding the executives based on the Corporation's total shareholder return versus that of a peer group of companies,
- Consider the historically cyclical nature of our business and provide stability to our long-term incentive program because they reward stock price performance versus our peer group of companies, thereby rewarding relative stock price performance rather than general stock market performance,
- Promote a long-term perspective among executives because of the three-year performance period,
- Are cash efficient for the Corporation because, except for the taxes paid on behalf of the executive at the time of vesting in exchange for a corresponding reduction in the number of vested shares, they are paid solely in stock, and
- Are tax efficient for the Corporation because they satisfy the requirements of Section 162(m) of the Internal Revenue Code.

Performance awards are earned based upon the Corporation's total shareholder return, defined as stock price appreciation plus dividends, versus that of our peer group of companies over a three-year performance period (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Estimated Future Payouts Under Equity Incentive Plan Awards—Performance Awards"*). The awards are paid in shares up to a maximum of 200 percent of target upon the achievement of total shareholder return equal to or exceeding the 75 th percentile of the peer group of companies. The target number of shares is paid for achieving the 50 th percentile, and the threshold payment of 50 percent of target is paid for achieving a shareholder return equal to the 25 th percentile of the peer group of companies. Absent the Committee's exercise of downward discretion, an interpolated number of shares is paid for performance between threshold and target, and between target and maximum, and no shares are paid for total shareholder return below the 25 th percentile.

Grants are customarily made at the Committee's May meeting (see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Grant Date"*) using a three-year performance period that has as its beginning the third business day following the release of the Corporation's earnings for the first quarter of the grant year. Each performance period ends on the twelfth business day following the release of first quarter earnings for the year that is three years after the grant year. The Committee will compare the average stock prices of U. S. Steel and its peer group of companies over the ten business days (third business day through the twelfth business day) following the release of earnings at the beginning of the performance period with the relevant average stock prices for the corresponding ten business days at the end of the performance period. (For a more detailed discussion, see *"Grants of Plan-Based Awards—Discussion of the Grants of Plan-Based Awards Table—Estimated Future Payouts Under Equity Incentive Plan Awards—Performance Awards."*) The Committee chose to use these two measurement periods to assure that the beginning and ending measurements will occur after the market has absorbed the Corporation's latest earnings information and to alleviate any concerns that shareholders may have regarding the timing of the release of material information in connection with the determination of executive compensation.

Appendix B

- Weyerhaeuser

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Compensation Components

Base Salary. Salaries are provided to employees as compensation for basic services to the Company and to meet the objective of attracting and retaining the talent needed to run the business. Salaries provide a consistent cash flow to employees assuming acceptable levels of performance and ongoing employment. To control fixed costs while still enabling the Company to attract critical talent, Weyerhaeuser targets base salaries at the median of market levels among the basic materials companies described above. Increases in salaries are generally based on individual PMP assessments, overall company budgets, and specific talent needs. The CEO's base salary is approximately at the median salary for CEOs of companies in the pay peer group. Base salaries for the named executive officers have also been set at median with a significant percentage of their total compensation at risk in forms of long-term incentive compensation.

Annual Incentive Plan ("AIP"). The AIP, which was introduced in January 2006, is a cash bonus incentive plan designed to focus executive officers and other participants on maximizing efficiency and generating strong financial performance. All U.S. and Canadian salaried employees, including executive officers, participate in the AIP to ensure that all employees have the common goal of improved operating performance.

AIP Performance Measure and Plan Mechanics. The AIP is funded based on the Company's Return on Net Asset ("RONA") performance excluding the results of Weyerhaeuser Real Estate Company ("WRECO"), for everyone except the CEO. WRECO employees do not participate in the AIP, but are paid under a separate compensation program that is consistent with compensation practices in the home-building industry. RONA performance for the CEO is calculated for total Weyerhaeuser, including WRECO. RONA is defined as earnings before interest and tax ("EBIT") divided by average net assets. The AIP measures performance over the fiscal year. RONA is used as the performance measure given its strong link over time to total shareholder return in the basic materials sector and for Weyerhaeuser. The use of this measure is intended to focus participants on generating profitability, both through maximizing revenues and controlling costs. In addition, use of this measure reinforces the importance of making capital investments that will improve the overall returns. The Committee has discretion to adjust the earnings used in the RONA calculation for extraordinary items as appropriate.

AIP Performance Target Setting. AIP performance targets are established at the beginning of each plan year. For each year a threshold, target, and maximum goal is established that represents 40%, 100%, and 300% target funding levels. If performance is below threshold, the funding level is 0%. The goals are established using a variety of factors, including dividend funding levels, the Company's cost of capital, historical Company and peer RONA performance, and internal benchmarks of outstanding performance. For 2006, the target performance objective and funding was 10% RONA for the AIP in general and 11% for the CEO, which approximates the cost of capital. The threshold for funding was achieved at 5.5% RONA, with 40% of target payout funded at this level. The threshold was set by the Committee at a level below the cost of capital as part of the Company's variable pay program. This threshold payout level in the variable pay program was established based on the fact that Weyerhaeuser and its peers have generated results above and below the cost of capital historically, and providing some level of payouts in either scenario is competitive practice for the Company's peers. The AIP threshold level that was chosen allows minimum funding of the variable pay plan after certain minimum requirements of funding shareholder dividends have been achieved. The maximum funding possible under the AIP is at 17% RONA, which funds at 300% of target. The level of RONA performance necessary for funding the threshold, target and maximum levels is set by the Committee annually and is not subject to adjustment by Company management. The Committee has discretion to adjust performance targets for extraordinary items as appropriate.

AIP Allocation Process. At the end of each year, the Committee approves the funding for the bonus pool based on the Company's performance against the pre-determined RONA targets. The available AIP pool is then allocated among the business units by management based on each unit's performance against pre-established goals. *(See "Determination of Compensation — Performance Management.")* The business unit leaders then allocate their available AIP pool among individual participants based on their respective performance.

AIP Target Opportunities. Each position in the Company, including executive positions, is assigned a target bonus opportunity reflecting competitive practices in the market for similar positions. Targets for executive positions range from 45% to 100% of base pay. Payment of target bonus amounts is not guaranteed, but must be earned based on the AIP funding process described above. Based on performance, the opportunity for each individual ranges from 0% to 300% of the target incentive value. The target set for the CEO and the named executive officers was based on competitive market practices and designed to focus the executive on the goal of improved operating performance. The CEO's target bonus was 125% of his base salary. For 2006, Mr. Rogel received a cash bonus award under the AIP of $1,300,000, which represents 80% of his target award. The bonus was awarded based on the Committee's overall assessment of Mr. Rogel's performance. The targets for the named executive officers were set at a percent of base pay of 85% for Mr. Taggart, 100% for Mr. Hanson, 85% for Mr. Fulton, 75% for Mr. Alford, 75% for Mr. Jackson and 65% for Mr. Cooper.

Recommendations for bonus payments to executive officers are made to the Committee by the chief executive officer, chief operating officer, and chief human resource officer. The Committee uses its discretion to determine the final bonus pool and each individual executive officer's bonus.

Long-Term Incentive Compensation. Beginning in January 2006, the Company changed its historic practice of granting 100% options and introduced the mix of options, performance shares, and RSUs. Weyerhaeuser uses its long-term incentive program to reinforce the pay-for-performance principle. Grants of long-term incentive are not guaranteed and must be earned each year. Participants receive no equity grant if their PMP performance does not meet minimum standards. Participants who are considered superior performers may receive above-target long-term incentive grants. Actual value earned through the long-term incentive grants depend on continued employment.

To fund long-term compensation programs, the Committee establishes an equity pool available for grant in any given year at the median level of competitive practices within the forest products and broader basic materials industries. For grants in 2006, the Committee established a pool of 2,162,020 options, 159,246 performance share units, and 344,708 RSUs available for grants to executive officers and other participants, including any special recognition grants. The total share pool authorized is 2,665,974 shares, or 1.12% of common shares outstanding. The Committee targets an annual share dilution rate of less than 2%. In addition, the Committee considers the accounting costs reflected in the company's financial statements when establishing the forms of equity to be granted and the size of the overall pool available. The forms of equity selected are intended to be cost-efficient, and the overall cost must be within the acceptable levels for internal budgets.

Weyerhaeuser makes its annual long-term incentive grants in February of each year at the regular meeting of the Compensation Committee of the Board, which typically is within one to two weeks after the Company has publicly released a report of its annual earnings. The Committee meeting date is the effective grant date for equity grants to all participants. For executive officers who are hired during the year, the Committee recommends compensation levels to the Board in connection with the Board's appointment of the executive and approves equity grants for the executive that are effective upon the officer's start date.

Stock Options **.** Options are issued at 100% of the fair market value to assure that executives will receive a benefit only when the stock price increases. Options granted in 2006 vest 25% a year over four years, and, if not exercised, expire in a maximum of ten years (or earlier in the case of termination of employment). In 2006, Weyerhaeuser also granted to its senior executives a one-time option grant (in addition to the regular annual grant) with a value equal to ~20% of the annual grant guidelines. These options vest at the end of two years and expire five years after grant. The intent of this grant was to provide a transition in incentive values given the three-year performance and vesting period for the performance shares that are replacing a portion of the annual option grants beginning in 2006. For the long-term component of compensation, in 2006 the following awards of stock options were granted to the executive officers named in the total compensation table: Mr. Rogel, 170,000 options; Mr. Taggart, 34,500 options; Mr. Hanson, 45,000 options; Mr. Fulton, 38,000 options; Mr. Alford 23,250 options; Mr. Jackson, 23,250 options; and Mr. Cooper, 36,000 options.

Performance Share Units. Weyerhaeuser grants performance share units to executive officers to focus participants on long-term, competitive operating excellence, and the creation of economic and shareholder value. Performance is measured over a three-year period by comparison to the performance peer group of basic materials companies described above . The performance share units are earned at the end of the three-year period based on performance results. The performance measure used for earning grants of performance share units is RONA Spread. RONA Spread is defined as RONA *(see definition in "AIP—AIP Performance Measure and Plan Mechanics" above.)* minus the benchmark RONA rate (defined as pre-tax cost of dividends plus interest expense) for Weyerhaeuser and its peers. Use of this measure is intended to reflect a long-term measure of performance above a minimum shareholder return relative to peers. The actual number of performance share units earned is based on Weyerhaeuser's performance relative to the performance peers. Threshold performance is the 25th percentile of peers, which equates to a payout of 0.2x the target number of shares. A participant earns none of the target number of performance shares if the Company's performance is below the threshold. Median performance compared to the Company's peers earns the target number of shares, with a maximum earned opportunity of twice the target grant for upper quartile performance. As performance shares are earned, shares of Weyerhaeuser common stock are issued to the participant. 30,000 Weyerhaeuser performance shares were granted to Mr. Rogel in 2006, 7,500 to Mr. Taggart, 9,000 to Mr. Hanson, 8,550 to Mr. Fulton, 4,650 to Mr. Alford, 4,650 to Mr. Jackson, and 0 to Mr. Cooper.

Total Long-Term Incentive Compensation Grants. Based on competitive market data, the total value of long-term incentive compensation grants made to the CEO in the form of stock options and performance share units is at or below the median for long-term incentive grants to CEOs in the compensation peer group. The total value of long-term incentive grants made to the named executive officers is generally at the median for grants to executive officers in the compensation peer group.

Other Benefits. All United States salaried employees, including executive officers, are eligible for qualified retirement or pension plan, 401(k) plan (which includes Company matching contributions), health and dental coverage, company-paid term life insurance, disability insurance, paid time off, and paid holidays. These rewards are designed to be competitive with overall market practices, and are in place to attract and retain the talent needed in the business. In addition, selected officers may be eligible to participate in the supplemental retirement plan and deferred compensation plan, and to receive other benefits described below.

Supplemental Retirement Plan. Executive officers and other highly-paid officers nominated by the CEO and approved by the Compensation Committee are eligible to participate in the Supplemental Retirement Plan (the "Supplemental Plan"). Supplemental Plan benefits are paid outside the Weyerhaeuser Company Retirement Plan for Salaried Employees (the "Salaried Retirement Plan") from the general funds of the Company. These benefits are determined based on the incentive compensation paid in the five consecutive years when the officer was paid the highest total compensation during the 10 calendar years before his or her retirement. Total compensation means base salary plus any award under the Company's annual incentive compensation plans. This amount is multiplied by the formula for determining Salaried Retirement Plan benefits. The Committee believes that the Company should provide competitive retirement benefits linked to overall company performance through the Supplemental Plan funding mechanism. Details of the plan benefits and the amounts accrued to each named executive officer are found in the Pension Benefits Table.

Appendix C

- NIKE Inc.

to maximize shareholder returns. Our total compensation program for the Named Executive Officers consists of the following elements:

- Base salary that reflects the executive’s accountabilities, skills, experience, performance, and future potential
- Annual performance-based incentive bonus based on company performance results under our Executive Performance Sharing Plan
- A portfolio approach to long-term incentive compensation to provide a balanced mix of equity and performance-based cash incentives
  - Performance-based awards payable in cash under the Long-Term Incentive Plan to encourage attainment of long-term financial objectives
  - Time vested stock options to align the interests of executives with those of shareholders
  - Time vested restricted stock awards to provide both upside and downside incentives consistent with shareholder returns, and to supply a strong retention incentive
- Benefits
  - Profit sharing under defined contribution retirement plans
  - Post-termination payments under non-competition and/or employment agreements

Use of Market Survey Data

As one tool to establish competitive ranges of base salary and incentive compensation opportunities for purposes of making recommendations to the Committee, our human resources staff uses competitive market data from surveys and reports prepared by Hewitt Associates and Towers Perrin. We use two benchmarks. One is a broad group of companies across many industries with revenues of $10 billion or more. The second benchmark we use is a peer group comprised of 24 consumer product companies that were selected based on factors such as having products or markets similar to ours, market capitalization or size similar to ours, or a common labor market for executive talent.

For purposes of setting executive compensation for fiscal 2007, the companies in this peer group were as follows: Abbott Laboratories, Apple Inc., The Clorox Company, The Coca Cola Company, Colgate-Palmolive Company, Columbia Sportswear Company, Federated Department Stores Inc., Fedex Corp., Gap Inc., General Mills Inc., Hewlett Packard Company, Intel Corp., International Business Machines Corporation, Kellogg Co., Limited Brands Inc., McDonald’s Corporation., Microsoft Corp., Pepsico, Inc., Polo Ralph Lauren Corporation, The Procter & Gamble Company, Starbucks Corp., Texas Instruments Incorporated, The Walt Disney Company, and Williams-Sonoma, Inc.

The surveys that our human resources staff review for each of the two benchmarks show percentile compensation levels for various executive positions. The Committee does not endeavor to set executive compensation at or near any particular percentile, and considers total compensation to be competitive if it is within the band of the 25 th to 75 th percentiles. Market data is only one of many factors that the Committee considers in the determination of executive compensation levels. Other factors include internal pay equity, level of responsibility, the individual's performance, expectations regarding the individual's future contributions, our own performance, and budget considerations.

Annual Cash Compensation

Base Salary

When making recommendations to the Committee concerning base salary levels for our Named Executive Officers, our human resources staff considers the market data described above to recommend base salaries generally between the 25th and 75th percentiles of the salaries for comparable positions reflected in the surveys and reports. Other factors considered in setting annual salary levels include the individual's performance in the prior year, expectations regarding the individual's future performance, any anticipated increase in the individual's responsibilities, and internal pay equity. The Committee reviews these factors each year and adjusts them to make sure that we are appropriately rewarding performance. In setting a Named Executive Officer's overall compensation package for the year, however, the Committee attempts to place a relatively greater emphasis on the incentive components of that compensation, than on base salary.

The Committee generally reviews and adjusts base salaries annually at a meeting in June, with salary adjustments becoming effective for the first pay period ending in August. During the fiscal 2007 salary review in June 2006, the Committee decided not to increase Mr. Parker's base salary, which remained at $1,250,000 for fiscal 2007. This was because Mr. Parker had already received a $150,000 salary increase effective January 23, 2006 in connection with his promotion to President and Chief Executive Officer. Mr. Denson's salary also did not increase for fiscal 2007, because he had received a $100,000 salary increase effective January 23, 2006 in connection with his promotion to sole President of the NIKE Brand. The Committee decided to increase Mr. Blair's base salary from $655,000 to $685,000, Mr. Stewart's base salary from $715,000 to $745,000 and Mr. DeStefano's base salary from $875,000 to $925,000. The increases for Mr. Blair and Mr. Stewart were in line with the average company-wide 4% merit increase for fiscal 2007, while Mr. DeStefano's salary was further increased in connection with his promotion to President, Global Operations in August 2006.

Performance-Based Annual Incentive Bonus

Annual bonuses are paid to the Named Executive Officers under our Executive Performance Sharing Plan ("PSP"). Our "pay for performance" philosophy for bonuses is simple: if we exceed our financial objectives, we will pay more; if we fail to reach them, we will pay less or nothing at all. The PSP for all executives is based 100% on overall corporate performance each year as measured by income before income taxes before the effect of any acquisitions, divestitures or accounting changes (“PTI”). Basing our bonus program for all executives on overall corporate performance is intended to foster teamwork and send the message to each executive that his or her role is to help ensure overall organizational success and maximize shareholder returns.

Each year the Committee establishes a target bonus for each Named Executive Officer under the PSP expressed as a percentage of base salary paid during the year. The threshold bonus under the PSP is 50% of the target bonus and the maximum bonus is 150% of target. For fiscal 2007, the Committee approved target bonuses as a percentage of salary paid during the year of 115% for Mr. Parker, 100% for Mr. Denson, 80% for Mr. DeStefano, and 70% for Mr. Blair and Mr. Stewart. These were the same target bonus percentages approved for the Named Executive Officers for fiscal 2006, except that Mr. DeStefano’s target bonus percentage was increased from 70% to 80% in connection with his promotion to President, Global Operations. The Committee sets these target bonus levels each year based on its judgment of what it finds to be competitive with our peer group of companies and our competitors, while maintaining internal pay equity.

The Committee approved PSP performance goals for fiscal 2007 of $2,212 million of PTI for the target bonus payout, $1,991 million of PTI for a 50% threshold bonus payout, and $2,433 million of PTI for a 150% maximum bonus payout. In setting the target level PTI goal for 2007, the Committee recognized that the adoption of FAS 123R by us in fiscal 2007 would have a significant impact on 2007 PTI. The Committee determined that the fiscal 2007 PTI target should represent a 10.0% increase over fiscal 2006 PTI of $2,142 million, before the effect of FAS 123R. Accordingly, the Committee adjusted the 2007 PTI target downward by $146 million, the anticipated FAS 123R charge, so that the 2007 target would represent a 10% PTI increase over the prior year results on a comparable basis. The percentage increase in PTI over prior year results required to achieve the target bonus payout each year is not a uniform percentage, but is established by the Committee based on its evaluation of our business plan and prospects for the year. The threshold and maximum PTI levels are also determined by the Committee based on similar factors. The Committee set the threshold PTI target level at 10% below the target PTI, and set the maximum PTI target level at 10% above the target PTI.

The PSP payout for all executives as a percentage of target bonus for fiscal 2007 was 97% based on our achievement of PTI of $2,200 million in fiscal 2007, which was 99.5% of the target payout level.

Long-Term Compensation

Performance-Based Long-Term Incentive Plan

The first component in our long-term portfolio mix is performance-based awards payable in cash under our Long-Term Incentive Plan (“LTIP”). As with the annual bonus, the LTIP follows our “pay for performance' philosophy. If we exceed our targets, we will pay more; if we fall short, we will pay less or nothing at all. This program causes our executives to focus on overall, long-term financial performance, and is intended to reward them for improving shareholder returns. At the beginning of each fiscal year, the Committee establishes performance goals and potential cash payouts for the next three fiscal years for all executive officers under the LTIP. LTIPs for all executives are based 50% on cumulative revenues for the three-year performance period and 50% on cumulative diluted earnings per share before the effect of acquisitions, divestitures and accounting changes ("EPS") for the period.

In June 2006, the Committee approved LTIP awards to all Named Executive Officers for the fiscal 2007-2009 performance period. Target award levels were approved for each executive, with the threshold award equal to 10% of the target award and the maximum award equal to 150% of the target award. The target awards were $600,000 for Mr. Parker, $500,000 for Mr. Denson and $300,000 for Mr. Blair, Mr. DeStefano and Mr. Stewart. These were the same LTIP target award levels approved for the Named Executive Officers each year since 2003, except that Mr. Parker's target LTIP award was $500,000 for his last three annual LTIP awards made prior to becoming Chief Executive Officer. The Committee sets these target LTIP levels each year based on the desired mix of long-term compensation and its judgment of what it finds to be competitive with our peer group of companies and our competitors, while maintaining internal pay equity.

For the fiscal 2007-2009 performance period, the cumulative revenue necessary to achieve the target award payout corresponds to a compounded annual growth rate ("CAGR") in revenues from fiscal 2006 results of 6%, the 10% threshold payout requires cumulative revenues corresponding to a 1.4% CAGR, and the 150% maximum payout requires cumulative revenues corresponding to a 7.8% CAGR. The Committee set the CAGR for maximum payout levels to correspond to our long-term financial goal of high single digit revenue growth. The target award payout level is lower than this long-term financial goal in part because the performance goal calculation excludes any benefit from acquisitions during the performance period.

In setting the target level EPS goal for the fiscal 2007-2009 performance period, the Committee recognized that the adoption of FAS 123R by us in fiscal 2007 would have a significant impact on EPS for this performance period. Our EPS for fiscal 2006 was $5.28, and we estimated that FAS 123R would have a $0.37 impact on fiscal 2007 results. The Committee desired to set a three-year EPS target based on a 12% CAGR from fiscal 2006 results, adjusted for the effect of FAS 123R in 2007, to measure performance on a comparable basis. Accordingly, in calculating the CAGR for the first year of the performance period, the target EPS was reduced by $0.37 to provide comparability. For EPS over the performance period, the target payout requires a FAS 123R-adjusted cumulative EPS corresponding to a 12% CAGR from fiscal 2006 results, the 50% threshold payout requires cumulative EPS corresponding to an 9.2% CAGR, and the 200% maximum payout requires cumulative EPS corresponding to a 13.9% CAGR. The Committee set the CAGR for maximum payout levels to correspond to our long-term financial goal of mid-teens EPS growth. The target award payout level is lower than this long-term financial goal in part because the performance goal calculation excludes any benefit from acquisitions during the performance period. The total payout percentage for all participants will be the average of the payout percentages determined for cumulative revenues and cumulative EPS, respectively.

As described in Proposal 2 in this proxy statement, in June 2007, the Committee set target award payout levels for the fiscal 2008-2010 performance period based on higher three-year performance targets of an 8% CAGR in revenues, and a 13% CAGR in EPS, with higher payouts of up to 200% of the target payout for higher growth rates, and no payout below the 50% payout level. The Committee intends the higher performance targets to be more aligned with our long-term growth goals, excluding acquisitions. The Committee also increased the target award amounts for Mr. Parker and Mr. Denson to $1,500,000 and $1,000,000, respectively reflecting the Committee's desire to have a higher portion of their compensation dependent on achievement relative to these long-term growth measures.

Our executive officers were eligible to receive similar LTIP awards set in June 2004 covering the fiscal 2005-2007 performance period. Based on our performance over the last three fiscal years, the maximum 150% payout percentage under these awards was earned. Cumulative revenues for the period were $44,890 million after adjustment to eliminate revenues resulting from our August 2004 acquisition of Official Starter LLC (the "Exeter Acquisition"), or 108.6% of the target payout level, which corresponded to the 150% payout level for revenues. Cumulative EPS for the period, after adjustment to eliminate FAS 123R expense from fiscal 2007 and EPS as a result of the Exeter Acquisition, was $15.97, or 120.3% of the target payout level, which corresponded to the 150% payout level for EPS. The total payout percentage was the average of the payout percentages determined for cumulative revenues and cumulative EPS, respectively.

Performance-Based Stock Options

The second component in our long-term portfolio mix is stock options. Stock options are designed to align the interests of the Company's executives with those of shareholders by encouraging executives to enhance the value of the Company and, hence, the price of the Class B Stock. This is true "pay for performance": executives are rewarded only if the market price of our stock rises, and they get nothing if the price does not rise. Our stock option program is generally based on granting options for a consistent number of shares each year for each position. When determining the grants, the Committee focuses on the number of shares, not the value for accounting purposes. Our approach is based on our desire to carefully control annual share usage and avoid fluctuations in grant levels due to share price changes. Our human resources staff periodically tests the reasonableness of our stock option grants against peer group market data.

Options are generally granted annually to all eligible employees, including the Named Executive Officers, in July of each year. Stock options for fiscal 2007 were granted by the Committee on July 14, 2006 with an exercise price based on the closing market price on July 13, 2006, the immediately preceding trading day. This option pricing was consistent with our long-time practice of using the closing market price on the preceding trading day as the exercise price for options we grant, as expressly stated in our 1990 Stock Incentive Plan. For options granted in fiscal 2008 and in the future, we have modified our practice to use the closing market price on the grant date as the exercise price.

Mr. Parker and Mr. Denson did not receive stock options in the fiscal 2007 annual option grant. On a post-split basis, they each received two option grants in fiscal 2006, one for 140,000 shares as part of the annual grant in July 2005 and another in February 2006 (250,000 shares for Mr. Parker and 200,000 shares for Mr. Denson) in connection with Mr. Parker's promotion to President and Chief Executive Officer and Mr. Denson's promotion to sole President of the NIKE Brand. Accordingly, the Committee did not believe that additional option grants for them were appropriate in July 2006. Options were granted in July 2006 to Mr. Blair for 66,000 shares and to Mr. DeStefano and Mr. Stewart for 100,000 shares each. This was the same number of options granted to each of them in July 2005.

Options we grant generally promote executive retention because they carry four-year vesting periods and are forfeited if the employee leaves before vesting occurs. Our options provide, however, that under certain conditions optionees may receive accelerated vesting of all of their options upon retirement as described above under the heading "Potential Payments Upon Termination or Change-in-Control." Accordingly, based on their ages and years of service, Mr. Parker, Mr. Denson, Mr. DeStefano and Mr. Stewart could terminate employment at any time and receive full vesting of their options, and Mr. Blair could terminate employment and be vested in 20% of his unvested options. This provision for accelerated vesting has been a standard feature of our stock option grants to all employees since 2002.

Restricted Stock Awards

The third component in our long-term portfolio mix is restricted stock awards. Stock ownership and stock-based incentive awards align the interests of our Named Executive Officers with the interests of our shareholders. Restricted stock provides both upside and downside potential returns, since the value of this incentive rises and falls with the stock price, consistent with shareholder returns. The Committee generally awards restricted stock to a Named Executive Officer once every three years, except that the Committee has determined that restricted stock should be granted annually to Mr. Parker and Mr. Denson to provide a relatively greater alignment between their compensation and shareholder returns. However, the Committee may also award restricted stock in connection with promotions or other special circumstances. Restricted stock awards on the regular three-year cycle are generally made in July at the same meeting at which stock options are granted. Awards generally vest in three equal installments on each of the first three anniversaries of the grant date. The awards promote executive retention as unvested shares held at the time the executive's employment is terminated are forfeited. Award recipients receive dividends on the full number of restricted shares awarded, both vested and unvested.

Appendix D

- Analyst Report for NIKE Inc.

September 20, 2007

Hardlines/Sporting Goods

Nike, Inc.

Flexing Its Muscles Again: Another Solid Quarter; Raising Estimates

Stock Rating:
Sector Outperformer

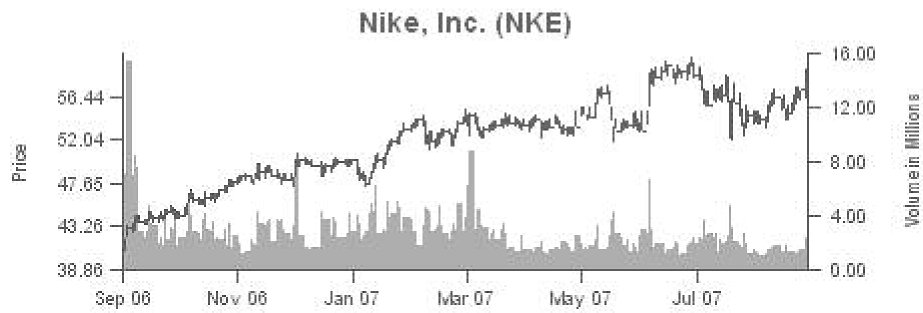
Sector Weighting:
Market Weight

12-18 mo. Price Target	$65.00
NKE-NYSE (9/20/07)	$58.32
Key Indices: S&P 500	
3-5-Yr. EPS Gr. Rate (E)	14.0%
52-week Range	$40.37-$60.53
Shares Outstanding	507.3M
Float	226.9M Shrs
Avg. Daily Trading Vol.	3,835,460
Market Capitalization	$29,585.7M
Dividend/Div Yield	$0.74 / 1.3%
Fiscal Year Ends	May
Book Value	$14.50 per Shr
2007 ROE (E)	22.6%
LT Debt	$426.7M
Preferred	$0.60M
Common Equity	$7,354.6M
Convertible Available	No

Earnings per Share	Prev	Current
2007		$2.84A
2008	$3.33E	$3.35E
2009	$3.79E	$3.86E
P/E		
2007		20.5x
2008	17.5x	17.4x
2009	15.4x	15.1x

- NKE shares continue to look attractive after a solid 1Q, featuring another qtr of double-digit futures growth, more signs of recovery in EMEA, & increased rev guidance. Though 2Q08 EPS guidance was lowered due to add'l demand creation exps, we believe these efforts will pay off in 2H & beyond.
- Once again, NKE was able to deliver EPS growth north of 20%, excl a $0.20 tax benefit, despite a tough qtr at US mall specialty retailers. While US PTI was down 2.4%, PTI was up 21% in EMEA, 52% in Asia, and 16.5% in the Americas. Inventories look clean, up only 1% vs 11% rev increases.
- With futures up 11.5% at end 1Q08 (10.5% net of Fx), revenue guidance raised to HSD-LDD from HSD, and add'l demand creation planned for 2Q08 likely to pay off through 1H09, we are raising our FY08 EPS est to $3.35, from $3.33, or 18% growth. Our FY09 EPS est is now $3.86, from $3.79.
- We continue to rate NKE SO with a PT of $65, or 18x our calendarized FY08 EPS est of $3.60 (unchanged). Further, there may be some earnings upside in 2Q08--EPS guidance is flat yoy, and add'l sales in Europe or Japan could bring earnings growth to positive territory.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated.

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Company Description
Global designer and marketer of branded athletic footwear, apparel and equipment.

www.nike.com

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See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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Price Target Calculation

We continue to rate NKE SO, and our price target remains $65, or 18x our calendarized FY08 EPS estimate of $3.60. This is above the 3-year historical average of 16.2x; however, we believe this premium is deserved as NKE continues to regain momentum in Europe, starts a turnaround in Japan, and continues to build its Other Brands unit. That said, we believe incremental stock-price increases in the next 12 months may be driven by earnings upside rather than multiple expansion, particularly 2Q and 3Q of FY08.

Key Risks to Price Target

Key risks to our price target include further deterioration of conditions in the U.S. mall channel, reversals of recovery in the Western European and Japanese markets, incremental pressure on gross margin from higher input costs and unfavorable foreign currency movements.

Exhibit 1. NKE Earnings Model

Nike, Inc. **Income Statement** (USD millions, except per share data)	FY2007	Aug-07 1Q08	Nov-07 2Q08E	Feb-08 3Q08E	May-08 4Q08E	FY2008E	FY2009E
Revenue	16,325.90	4,655.10	4,175.88	4,352.72	4,825.97	18,009.67	19,590.24
Cost of Sales	9,165.40	2,568.10	2,358.94	2,418.48	2,701.06	10,046.58	10,862.70
Gross Profit	**7,160.50**	**2,087.00**	**1,816.94**	**1,934.24**	**2,124.91**	**7,963.09**	**8,727.54**
Gross Margin %	**43.9%**	**44.8%**	**43.5%**	**44.4%**	**44.0%**	**44.2%**	**44.6%**
Selling & Administrative Cost	5,028.70	1,434.70	1,401.14	1,367.63	1,392.84	5,596.31	6,079.46
SG&A %	**30.8%**	**30.8%**	**33.6%**	**31.4%**	**28.9%**	**31.1%**	**31.0%**
Operating Profit	**2,131.80**	**652.30**	**415.80**	**566.61**	**732.07**	**2,366.79**	**2,648.08**
Operating Margin %	**13.1%**	**14.0%**	**10.0%**	**13.0%**	**15.2%**	**13.1%**	**13.5%**
Interest (Income) Expense (net)	(67.20)	(24.60)	(16.40)	(16.40)	(16.40)	(73.79)	(67.93)
Other (Income) Expense (net)	13.30	6.60	6.00	5.00	5.00	22.60	7.00
Pretax Income	**2,185.70**	**670.30**	**426.20**	**578.01**	**743.47**	**2,417.98**	**2,709.01**
Income Taxes	736.35	202.06	130.42	176.87	227.50	736.85	828.96
Net Income	**1,449.35**	**468.24**	**295.78**	**401.14**	**515.97**	**1,681.13**	**1,880.05**
Net Margin %	**8.9%**	**10.1%**	**7.1%**	**9.2%**	**10.7%**	**9.3%**	**9.6%**
Post-Split Diluted Shares	509.90	507.30	503.40	500.00	497.00	501.93	486.85
Net Diluted EPS (Operating)	**$2.84**	**$0.92**	**$0.59**	**$0.80**	**$1.04**	**$3.35**	**$3.86**
Earnings Growth % (Operating EPS)	6%	28%	2%	17%	21%	18%	15%

Source: Company reports and CIBC World Markets Corp.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2007 Current	$0.72A	$0.58A	$0.69A	$0.86A	$2.84A
2008 Prior	$0.87E	$0.68E	$0.77E	$1.00E	$3.33E
2008 Current	$0.92A	$0.59E	$0.80E	$1.04E	$3.35E
2009 Prior	--	--	--	--	$3.79E
2009 Current	--	--	--	--	$3.86E

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Important Disclosure Footnotes for Nike, Inc. (NKE)

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 09/20/2007:

Nike, Inc. (NKE-NYSE, $58.32, Sector Outperformer)

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11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

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14 The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart

No price chart is available because CIBC World Markets
has covered this company,
Nike, Inc. (NKE), for less than one year.

No rating history data found for Nike, Inc.

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 20 Sep 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	382	41.4%	Sector Outperformer (Buy)	190	49.7%
Sector Performer (Hold/Neutral)	453	49.1%	Sector Performer (Hold/Neutral)	225	49.7%
Sector Underperformer (Sell)	58	6.3%	Sector Underperformer (Sell)	24	41.4%
Restricted	17	1.8%	Restricted	15	88.2%

Ratings Distribution: Hardlines Coverage Universe

(as of 20 Sep 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	29.4%	Sector Outperformer (Buy)	1	20.0%
Sector Performer (Hold/Neutral)	11	64.7%	Sector Performer (Hold/Neutral)	3	27.3%
Sector Underperformer (Sell)	1	5.9%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Hardlines Sector includes the following tickers: BBBY, BBY, BGFV, CAB, CC, DKS, DWRI, FINL, HIBB, HLYS, KIRK, LULU, NKE, PETM, TSCO, UA, WSM.

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