JAMES F. REDA
& ASSOCIATES, LLC
1500 Broadway
New York, New York 10036
(212) 646-4460
www.jfreda.com

April 6, 2006

Ms. Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-9303

Re: File No. S7-03-06; Proposed Rules on Executive Compensation and Related Party Disclosure, Items 402 (b) and 407 (e) of Regulation S-K

Dear Ms. Morris,

This letter is a comment on the Securities and Exchange Commission's ("SEC" or "Commission") proposed rules on executive compensation and related party disclosure, Item 402 (b) and Item 407 (e) of Regulation S-K ("Proposed Regulations") and represents the views of James F. Reda & Associates, LLC, advisors to Compensation Committees ("Committee") on matters of executive and board pay. We serve in the role of outside advisor to the Committees of Fortune-100 companies. The purpose of this letter is to focus more attention on an independent decision making process for Committees, particularly in relation to outside compensation advisors.

The traditional providers of compensation advice have significant economic incentives to provide other unrelated HR services in addition to compensation advice. This causes a direct conflict of interest and gives at least the appearance of lack of independence with regard to their advice.

In the following pages, we outline specific suggestions for addressing the issue of independent Committee operations, and cite supporting arguments made by Professor Jeffrey Gordon of Columbia Law School, The Conference Board, the National Association of Corporate Directors ("NACD"), and other leading corporate governance experts.

I applaud the efforts of the Commission in preparing the proposed rules and welcome the chance to address questions or requests for further information.

Best regards,

James F. Reda
Managing Director

Our Comments on File No. S7-03-06; Proposed Rules on Executive Compensation and Related Party Disclosure, Item 402 (b) and 407 (e) of Regulation S-K

Introduction

My name is James Francis Reda, Managing Director of James F. Reda & Associates, LLC based in New York City. I am an independent compensation advisor to numerous publicly traded companies. I have about 18 years of executive compensation consulting experience and have authored two books and co-authored another as well as over twenty articles in the area of executive compensation.

Numerous comment letters have and will be submitted to the SEC that address technical matters relating to the completeness and accuracy in disclosing executive compensation programs and associated dollar amounts. These discussions are crucial, but we will not address them here.

Our primary issue is, from a shareholder's point of view, "Are executive compensation decisions being made within a truly independent process?"

Business as usual cannot continue in the world of executive compensation. Lucian Bebchuk and Yaniv Grinstein have shown that the ratio of aggregate pay for top-five executives to aggregate earnings has increased from 5% in the period 1993-95 to 10% in 2001-03. [1] Compensation Committees need to take a hard look at these numbers and reassess their operations from stem to stern. The SEC can help Committees by providing them with a higher standard of disclosure to verify the independence of compensation advice.

We view the decision making process as crucial and in the best interest of shareholders that it be truly independent. This is the only way that publicly traded corporations can achieve a fair and equitable executive compensation program that pays for performance.

[1] BEBCHUK and GRINSTEIN supra note 7, at 1.

Summary of Recommended Changes to Proposed Regulations

Overall, we recommend the SEC consider changes to the Proposed Regulations, which are as follows:

(1) Require that the members of the Committee sign the Compensation Discussion & Analysis ("CD&A") report as proposed by Professor Jeffrey Gordon in his forthcoming article for the Journal of Corporation Law, *Executive Compensation: If there's a Problem, What's the Remedy? The Case for "Compensation Discussion and Analysis"*.[2]

(2) Where the Proposed Regulations refer to compensation consultants, change "consultants" to "advisors," to include other outside advisors, such as legal advisors, that may be retained to advise the Committee ("Compensation Advisors").

(3) Require further disclosure pertaining to Compensation Advisor independence, such as the procedure the Committee followed in choosing a Compensation Advisor, a table presenting fees paid to Compensation Advisors, the type of work performed by the Compensation Advisor, and the relative fee structure for work performed for the Committee and for management, if applicable. The Committee should provide a description of the work performed when the Compensation Advisor worked with management. This disclosure is similar to that found in the Audit Committee Report and has been crucial in making the audit process independent of management.

1. Approval of CD&A by Committee

The CD&A was proposed to give shareholders additional information about the basis for the executive compensation decision making process and to provide more specific justification of the structure and amounts paid to senior executives. The current executive compensation disclosure rules include a "Compensation Committee Report" that requires that the Committee describe the compensation paid to all Named Executive Officers, with an additional discussion of CEO pay. This requirement has been in place since 1993 (the last time the Commission changed the disclosure rules) and has given the Committee an opportunity to discuss their decisions and decision making process. But, overall, the effect of this reporting requirement has been minimal.

We view the CD&A as a step in the right direction for shareholders. We also endorse the thinking behind requiring filing vs. a disclosure in that a filing carries additional liability. However, the SEC must further stress that the CD&A is the responsibility of the Committee. It is surprising that the Proposed Regulations cite Professor Gordon's article as the basis for suggesting the CD&A, but they do not require approval of the CD&A by the Committee[3].

---

[2] Jeffrey N. Gordon, *Executive Compensation: If There's a Problem, What's the Remedy? The Case for "Compensation Discussion and Analysis,"* Columbia Law School, The Center for Law and Economic Studies Working Paper No. 273/2006 forthcoming, Journal of Corporation Law (Summer 2006), available at http://ssrn.com/abstract=686464.
[3] See Proposed Item 402 (b). See GORDON *supra* note 1, at 116.

As part of board ownership for compensation decisions, the members of the Committee should be required to sign their names to the end of the CD&A report, completely attesting to their pay decisions as business judgments and staking their reputations on the dotted line. The CEO and CFO can attest to the accuracy of the compensation data, particularly the change-in-control severance amounts, but the Committee should have final approval authority over the CD&A.
With Committee member signatures, the CD&A will strengthen the basic premise that the Committee is accountable for pay decisions and, in particular, the decision making process

2. Broaden Meaning of Compensation Consultants to Compensation Advisors

Committees are seeking guidance from an increasing number of advisors, not all of which focus exclusively on providing independent advice to Committees.

Law firms, actuarial firms, and other business advisors are being consulted by directors when determining executive pay. Lawyers are bound by ethical standards and a duty to serve clients. They can be subject to censure. On the other hand, consultants do not even have minimum qualification standards. Lawyers are advocates for their clients. If they are hired by the committee they must go through conflict checks and get releases from conflicted parties.

Therefore, we advocate that the terminology be broadened from "compensation consultants" to "compensation advisors." A description of the advisor's business should be included in the CD&A report. In the next section, we review additional items which should be disclosed in order to determine the independence of the compensation advisor.

With regard to law firms, we would suggest that the law firm be named, but that the suggested fee disclosure (see our next recommendation) apply to those firms whose advice pertained to setting pay and pay techniques, which are typically limited to executive compensation consultants.

3. Further Disclosure on Compensation Advisor Independence

A key ingredient for an independent decision making process is a truly independent compensation advisor. In a recent report, the Conference Board Global Corporate Governance Research Center recommended that Committees consider independence from management as "the crucial question in selecting and using compensation consultants."[4] For many firms, executive compensation consulting is only one of an array of products and services which it provides to the corporation. If an executive compensation consulting firm is part of such an organization, disclosure of any affiliates that also provide services to the company is necessary.

Currently, major compensation consulting firms can easily have conflicts, thus impairing the independence of their compensation advice, for reasons as follows:

[4] Carolyn Kay Brancato and Alan A. Rudnick, *The Evolving Relationship Between Compensation Committees and Consultants*, The Conference Board Global Corporate Governance Research Center, January 2006, available at www.conference-board.org

(i) Of the largest consulting firms in the U.S., only one provides only compensation consulting services. All others provide a multitude of HR-related consulting services and some also provide insurance brokerage services or IT outsourcing services either directly or through affiliates (collectively referred to as "Diversified Consulting Firms").

(ii) Compensation consulting makes up a very small percentage of revenue for most Diversified Consulting Firms providing compensation consulting services.

(iii) It is general knowledge in these Diversified Consulting Firms that they want to sell other services in addition to compensation consulting. This approach involves "cross-selling" and many points of contact within an organization (almost all with management).

The combination of these factors leads to a situation where the compensation consultant is obviously beholden to management and is subject to various types of pressure to satisfy management. The authors of the Conference Board report liken this to the situation between audit committees and outside auditors prior to the Sarbanes-Oxley Act:

> The Act, as implemented, mandates that independent audit committees control this relationship by making them solely responsible for the hiring, firing, compensation, and monitoring the independence and performance of the outside auditors…These limitations have strengthened the integrity of the outside audit by effectively eliminating economic incentives for the auditors to curry favor with management to preserve and expand lucrative non-audit consulting contracts, rather than focusing all efforts on the independent audit and audit-related services. Compensation committees can find themselves in an analogous position if their consultants stand to profit more from the work performed for management, rather than services provided to the committee. (Page 15)[5]

Another analogy can be seen in the case of investment banks providing investment research advice. In both cases, there was supposedly a "Chinese Wall" of well intentioned professionals who were looking out for the interests of all concerned to prevent conflicts of interest. We all know how that turned out. Scandals and poor judgment wreaked havoc on the accounting profession as well as the investment banking profession[6]. A similar set of circumstances surrounds the compensation consulting profession today. In our view, the SEC must take action to shed light on this issue and improve the independence of Committee operations.

---

[5] Id page 15.

[6] John Goff, *Wall? What Chinese Wall?*, Apr 22, 2002, CFO.com. See also Ariel Markelevich, Charles A. Barragato, and Rani Hoitash, *The Nature and Disclosure of Fees Paid to Auditors: An Analysis Before and After the Sarbanes-Oxley Act*, The CPA Journal Special Edition November 2005, available at http://www.nysscpa.org/cpajournal/2005/1105/special_issue/essentials/p6.htm

Diversified Consulting Firms admit that "cross-selling' is an objective between HR consulting and other parts of the firm.[7] This is especially prevalent when selling services to Fortune-100 firms, as shown by Affiliated Computer Services in their earnings discussion after acquiring Buck Consultants.[8]

To highlight the point of the diversification of firms that provide compensation consulting, additional HR services and other types of services, we have constructed a chart that is a companion to Chart 1 at end of this letter.

Firm	***Services Provided Other Than Compensation Consulting***	***% of Overall Revenues Made up by HR Consulting***
Affiliated Computer Services, Inc. (Buck Consultants, Inc.)	Business Process Outsourcing HR Consulting* IT Consulting Systems Integration	13%
Aon Corporation	HR Consulting* Risk and Insurance Insurance Underwriting	12%
Clark, Inc.	HR Consulting* Banking Executive Benefits Healthcare Federal Policy	12%
Hewitt Associates, Inc.	HR Consulting* Outsourcing	28%
Mercer, Inc.	HR Consulting* Retirement Management and Organizational Change Healthcare/Group Benefits Economic	14%
Watson Wyatt Worldwide, Inc.	HR Consulting* Benefits Technology Solutions	8%

Source: Hoovers.com

* Includes other than compensation consulting services, such as pension, health & welfare, communications, etc.
[7] ACS Q1FY06 Earnings Release Slides dated October 20, 2005, which can be located at http://www.acs-inc.com/invest/q1fy06_earningsslides.pdf
[8] Id. Slide #10

It is clear that HR consulting is not the primary source of revenue at these companies. More importantly, the revenue derived from compensation consulting is a fraction of total HR consulting revenue. For example, for a typical HR consulting firm, compensation consulting revenue will be about 3% to 10% of total HR consulting revenue. Using this estimate, we estimate compensation consulting revenue to be between .5% and 2% of total firm revenue. In other words, all other revenue completely overwhelms the compensation consulting revenue and calls into question the independence of their compensation-related advice.

Since compensation consultants or any HR-related consultant are not bound by a credible code of ethics that will affect their ability to practice, there is no real impediment for a compensation consultant to bend towards management. In fact, there are many cases where a compensation consultant was fired, demoted or re-assigned when they did not go along with management or at least did not enthusiastically support management's demands. Thus, the situation provides extreme economic pressure to bend to management without a corresponding code of ethics or something else to resist this pressure.

To ensure that disclosures are complete and provide shareholders with all relevant information as to advisor independence, we advocate that the CD&A should include a table showing the fees paid to the advisor and its affiliates. This approach would be analogous to and consistent with disclosure requirements for a corporation's independent auditors.

An example of what this table might look like is shown below. The table should show (i) the fees paid for Compensation Committee consulting services and (ii) aggregate fees paid by the Company for all services performed by all entities in the company of which the consulting unit is a part. Along with attesting to the accuracy of their pay decisions, Committee members, by signing the CD&A with a table of outside advisor fees, will attest to the independence of the process in determining compensation programs and amounts.

The following table would help to clarify the independence of Committee advice:

Compensation Advisor Fees	$ XX,XXX
All other fees paid to Compensation Advisor and Affiliated Companies	$XXX,XXX,XXX
Total	$XXX,XXX,XXX

The term "Compensation Advisor" refers to the firm providing compensation consulting services and all other affiliated companies. The shareholders may be shocked by the amounts some companies are (a) paying their Compensation Advisor (may be in millions of dollars) and (b) total fees for all services (may be close to $100 Million in certain cases where all HR services are being provided to large, global companies). The amount paid would also give an indication to the amount of work that went into the review of the executive compensation program.

This chart is similar to that included in the Audit Committee Report. This would provide a snapshot of the independence of compensation consulting advice. This small change would compel Committees to review their Compensation Advisor and their independence (or alignment with management).

As stated above, we would suggest that the law firm be named in the CD&A (or other advisors used by the Committee), but that the suggested fee disclosure apply to those firms whose advice pertained to setting pay and pay techniques, which are typically limited to executive compensation consultants.

Affordability of Compensation Advisors

Some have said that that two consultants or advisors (or in some cases three if the Committee engages legal counsel) will be costly. At the same time, it is clear that a large part of shareholder value is being paid to management and employees in general in compensation and benefits. While the Committee does oversee many aspects of the compensation and benefits, it really gets very involved in the design and payout from the Company's incentive plans. Moreover, executive pay amounts to executive officers have increased by 9.4% each year over the past ten years.[9]

In a typical Fortune 100 company, approximately 1% to 1-1/2% of market capitalization is paid out in short- and long-term incentives with a substantial portion paid to its executive officers. Using an average market capitalization of $25 billion as an example, the annual incentive pool (annual bonus plus long-term incentive awards) could be in the range of $250 million to $375 million. The Committee and other directors have an obligation to shareholders to make sure that this pool is created (e.g., incentive plan design), paid out in a proper manner and that the payouts are tied to corporate performance in a meaningful way. With such large amounts at stake, it seems foolish not to require that the Committee hire its own advisors, after a rigorous assessment of their independence from management.

In our view, it is extremely important that (a) the Compensation Advisor provide no other work to the company unless it is closely related to their advice and no other firm can accomplish the task in a reasonable time and cost and (b) the Committee keep a short leash on the Compensation Advisor by requiring a detailed engagement letter be entered into and close scrutiny of interaction with management be maintained.

[9] Lucian Bebchuk and Yaniv Grinstein, "*The Growth of Executive Pay,*" Harvard Olin Center, Working Paper No. 510/2005 as revised for publication in 21 Oxford Review of Economic Policy 283-303 (2005), available at http://ssrn.com/abstract=648682, 3.

Review of Commentary on Independence of Compensation Consulting Advice

In the past three years, there has been a substantial amount of commentary attesting to the importance of independent compensation consulting advice to aligning executive pay with corporate performance. We summarize these documents below, from A to F, beginning with the groundbreaking "Restoring the Public Trust" in January 2003 and ending with a March 2006 article in the New York Times questioning the independence of compensation consulting advice.

A point to note is that the Conference Board may have reversed its position on the issue of independent compensation consulting advice. In September 2005, a Conference Board report by a working group composed of human resource executives and compensation consultants (and one corporate governance expert who dissented from the working group's report) suggested that a single consultant could avoid "non-constructive behavior" by using the firm's Diversified Consulting Firm as their compensation consultant so as to not "deprive the Company of the firm's talents."[10]

In January 2006, in a subsequent report focusing on compensation committees' processes to ensure independence and objectivity of outside advice, the Conference Board report states "When the committee hires a consultant only for itself, and the consultant has not historically done work for the company or its current management, the committee can easily assure itself about independence."[11]

In his aforementioned working paper, Professor Jeffrey Gordon describes the "faulty governance story" that authors Lucian Bebchuk and Jesse Fried outline in their thought-provoking book, *Pay Without Performance: The Unfulfilled Promise of Executive Compensation*. Clearly it can be seen that the "use of compensation consultants with disabling conflicts of interest, in particular, provision to the firm of a wide range of compensation consulting services" is a main factor in the "faulty governance story."[12]

Finally, there are connections between lack of independence and unusual pay arrangements as reported by the New York Times with regard to Northfork's very unusual pay programs.[13]

---

[10] Charles Peck and Jude Rich for The Conference Board, *Executive Compensation Consulting, A Research Working Group Report on Best Practices*, September 2005, available at www.conference-board.org. 8.
[11] KAY BRANCATO and RUDNICK supra note 3, at 15.
[12] GORDON supra note 1, at 103.
[13] See Gretchen Morgenson's *Bank Deal's Payout Plan Questioned*, New York Times, March 15, 2006, Section C, Page 1, Column 6, electronic copy available at www.nytimes.com.

A. Commission on Public Trust and Private Enterprise. (Conference Board: January 2003)

In the *Commission on Public Trust and Private Enterprise* (sometimes referred to as "Restoring the Public Trust Report), the Conference Board considers it highly advisable for Compensation Committees to hire independent compensation consultants to ensure the objectivity of their executive pay recommendations. The report states "The committee needs to act independently of management, hire its own consultants, and avoid benchmarking that keeps continually raising the compensation levels of executives."[14]

B. Executive Compensation and the Role of the Compensation Committee. (National Association of Corporate Directors: December 2003)

The National Association of Corporate Directors ("NACD") set up a Blue Ribbon Commission ("BRC") to examine issues related to executive compensation and oversight of the executive compensation decision making process. The commission was made up thirty four people, four of which were compensation consultants. (I was on this panel.)

The BRC reported that Committees can work more effectively with the help of qualified professionals who are independent of management. For that reason, the BRC recommended that Compensation Committees consider engaging an independent compensation consultant, who does no work for management, to assist the Committee. The report suggested appointing an independent compensation consultant to assist in the development of a compensation philosophy and executive pay packages. It goes on to state "any consultant hired by management should not be engaged in assignments involving CEO or senior executive pay."[15]

The NACD believes that by separating the consultant's role from management, it eliminates possible confusion. They contend that if a consultant is hired by management, he or she might feel conflicted when making recommendations: "A consultant engaged by the committee is much more likely to take an objective view that is consistent with the board's responsibility to shareholders and other constituencies. This may result in a higher cost of board operations, but it can be an appropriate investment, considering the impact and magnitude of executive compensation."[16]

C. Executive Compensation Consulting: A Research Working Group Report on Best Practices (Conference Board: September 2005)

The Conference Board's "Executive Compensation Consulting: A Research Working Group Report on Best Practices," focused on guidelines for committees, HR managers and advisors. It is important to note that the majority of those who compiled this report were representatives

---

[14] The Conference Board Commission on Public Trust and Private Enterprise, January 2003, page 6. available at www.conference-board.org.
[15] National Association of Corporate Directors Blue Ribbon Commission, *Executive Compensation and the Role of the Compensation Committee*, 2003, 18.
[16] Id 19.

from large Diversified Consulting Firms. One of their main arguments was: "The consultant (the individual and the firm) should be allowed to do other work for the company. Since many consulting firms provide services other than executive compensation, the company would be deprived of the talents of these firms."[17] Judging from their claims, it is evident that their primary focus is not on independent decision making process for Committees and promoting maximization of shareholder value.

At the end of the working group report (Appendix C), Professor Charles Elson and Mr. Dan Lynch provide a dissenting view, arguing that this would impair the independence of committees. "First, I believe that the compensation committee, in most circumstances, should engage its own executive compensation consultant separate and apart from any such consultant working for management, given the current legal and regulatory environment in addition to public sentiment. Second, any such consultant engaged by the committee must agree to do no other work for the company other than the committee's work so as to preserve the consultant's actual and perceived independence from company management. These two points, I believe, are critical to enhancing the integrity and effectiveness of the executive compensation process in both fact and shareholder perception."[18]

It is this view that prevailed as the Conference Board introduced another report just four months later in response to this dissension (see below).

D. Executive Compensation: If There's a Problem, What's the Remedy? The Case for "Compensation Discussion and Analysis," Professor Jeffrey N. Gordon, Columbia Law School, The Center for Law and Economic Studies Working Paper No. 273/2006 forthcoming, Journal of Corporation Law (Created in September 2005, to be published in Summer 2006)

Jeffrey N. Gordon, professor at Columbia University Law School, provides the seminal argument for the CD&A, and also provides another necessary part to the process of setting executive pay, which is an independent Compensation Advisor.

Professor Gordon suggests that the Committee sign the CD&A report and advocates independence in the process of determining executive pay. Below are a select number of excerpts from Professor Gordon's paper:

> "Various governance arrangements make it unlikely that the board will act as a good faith bargaining agent for the shareholders in an arm's-length process." (Page 103)[19]
>
> [One of the salient elements in the faulty governance story is the] "use of compensation consultants with disabling conflicts of interest, in particular, provision to the firm of a wide range of compensation consulting services." (Page 103)[20]

---

[17] PECK and RICH supra note 8, at 8.
[18] Id at 3.
[19] GORDON supra note 1 at 103

> "Drawing from new practices of audit committees influenced by Sarbanes-Oxley…compensation committees may well insist on independent compensation consultants and perhaps independent counsel…board process is likely to improve considerably…these process improvements could make a significant difference in compensation policies." (Page 120)[21]

E. "The Evolving Relationship Between Compensation Committees and Consultants" (Carolyn Kay Brancato and Alan A. Rudnick for the Conference Board: January 2006)

This Conference Board report resulted from an array of dissenting views on guidelines and arguments made in the Working Group report mentioned previously. Importantly, it addressed the questions raised about compensation consultants who provide other services directly to management and also discussed the advantages to hiring independent advisors.

This report concluded that "when the compensation committee uses information and services from outside consultants, it must ensure that consultants are independent of management and provide objective, neutral advice to the committee. At a minimum, the committee must control all aspects of the committee-consultant relationship, including consultant retention, the scope of work, oversight and monitoring of work, and if necessary, dismissal of the consultant."[22]

The report emphasizes that compensation committees must assure themselves of consultants' independence from management.

> "Directors must be able, in good faith, to conclude that advice they receive from consultants is unvarnished and responsive to the issues before the committee. Unless directors are satisfied that the consultants are independent and provide objective advice, directors risk impairing their own independence and thus violating their fiduciary duties." (Page 15)[23]

Another main finding in the recent Conference Board report, is that a good way to determine the independence of the consultants is by scrutinizing how much they are being paid for compensation and other services that they provide.

> "Any imbalance in fees generated by management versus fees generated on behalf of the committee should receive intense scrutiny." (Page 15)[24]

In remarking on the role of professional advisors in the pre-Sarbanes-Oxley era, of companies, this Conference Board report found as follows:

---

[20] Id at 103.
[21] Id at 120.
[22] KAY BRANCATO and RUDNICK supra note 3, at 6.
[23] Id at 15.
[24] Id at 15.

> "various professional advisors of companies, such as public auditors, compensation consultants, and, in some cases, law firms, failed to provide truly independent advice and professional judgment as they came to view management as the 'client' instead of the corporation." (Page 21)[25]

F. "Bank Deal's Payout Plan Questioned" (New York Times; March 15, 2006)

Pulitzer-Prize winning journalist, Gretchen Morgenson, wrote an article in the NY Times on March 15, 2006, addressing escalating concerns about the executive pay recommendations made by Mercer HR Consulting to North Fork. The thrust of her argument was as follows: "When the same consulting firm that advises a board on pay practices generates revenue by providing other services to the company, questions can arise about which master the consultant is serving."[26]

In addition to advising on pay matters, many large compensation consulting firms, including Mercer, Hewitt, and Watson Wyatt, also provide other services to companies, like actuarial and outsourcing services and pension plan administration. "Mercer earned a total of almost $1 million in 2002 and 2003 for its services as actuary to North Fork's cash-balance retirement plan."[27]

Paul Hodgson, a senior research associate at the Corporate Library, contends, "We like clear lines of distinction in corporate governance because you avoid the possibilities of anyone raising a red flag saying, wouldn't the consultant be worried about losing their contract with the HR department if they came to the compensation committee and said we find the CEO is overpaid?"[28]

Accordingly, Committee advisors should have the ability to exercise independent judgment free from any relationship or influence that could appear to compromise their ability to approach compensation issues decisively and independently.

[25] Id at 21.
[26] MORGENSON supra note 11.
[27] Id
[28] Id

Chart 1. Partial List of Diversified Consulting Firms[29]

Consulting Firm	Professional Services	% of Total Revenue	Total Revenue ($ mil.)
Aon Corporation	Risk and Insurance	56%	$5,696.3
	Insurance Underwriting	31%	$3,153.3
	Consulting (HR & Other)	12%	$1,220.6
	Other	1%	$101.7
			$10,172.0
Clark, Inc.	Banking	45%	$123.2
(Pearl Meyer)	Executive Benefits	22%	$60.2
	Healthcare	14%	$38.3
	Pearl Meyer (compensation only)	12%	$32.9
	Federal Policy	4%	$11.0
	Other	3%	$8.2
			$273.8
Hewitt Associates, Inc.	Outsourcing	70%	$2,022.7
	Consulting (HR)	28%	$817.6
	Adjustments	2%	$58.2
			$2,898.5
Mercer, Inc.	Retirement	44%	$1,350.8
	Management and Org. Change	19%	$583.3
	Human Capital (HR)	14%	$429.8
	Healthcare and Group Benefits	13%	$399.1
	Economic	5%	$153.5
	Other	5%	$153.5
			$3,070.0
Watson Wyatt Worldwide, Inc.	Benefits	63%	$464.6
	International	13%	$95.9
	Technology Solutions	10%	$73.7
	Human Capital (HR)	8%	$59.0
	Other	6%	$44.2
			$737.4
Towers Perrin	***Human Consulting Services (HR)***		N/A
	Reinsurance		N/A
	Tillinghast		N/A
			$1,620.0
Affiliated Computer Services, Inc.	Business Process Outsourcing	75%	$3,238
(Buck Consultants, Inc.)	***Buck Consultants, Inc (HR).***[30]	13%	$640
	IT Consulting	17%	$859
	Systems Integration	5%	$254
			$4,991

[29] Source: Hoovers.com. Segment that provides compensation consulting services is show in bold italics.
[30] Revenue listed for Buck Consultants is based on ACS Q1FY06 Earnings Release Slides dated October 20, 2005, which can be located at http://www.acs-inc.com/invest/q1fy06_earningsslides.pdf.