

VARIAN MEDICAL SYSTEMS INC
Form DEF 14A
December 28, 2004
SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

VARIAN MEDICAL SYSTEMS, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required
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- (4) Proposed maximum aggregate value of transaction:
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- (3) Filing Party:
- (4) Date Filed:

Varian Medical Systems, Inc.

**3100 Hansen Way
Palo Alto, CA 94304**

December 28, 2004

Dear Stockholder:

You are cordially invited to attend Varian Medical Systems, Inc.'s 2005 Annual Meeting of Stockholders to be held on Thursday, February 17, 2005 at 1:00 p.m. at the Sheraton Palo Alto Hotel, Justine's Room, 625 El Camino Real, Palo Alto, California 94301.

The Secretary's formal notice of the meeting and the Proxy Statement appear on the following pages and describe the matters to be acted upon at the annual meeting. You also will have the opportunity to hear what has happened in our business in the past year.

We hope that you can join us. However, whether or not you plan to be there, please sign and return your proxy card in the enclosed envelope as soon as possible so that your vote will be counted.

Sincerely,

Richard M. Levy
*Chairman of the Board
President and Chief Executive Officer*

Varian Medical Systems, Inc.
3100 Hansen Way
Palo Alto, CA 94304

December 28, 2004

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
AND PROXY STATEMENT**

Varian Medical Systems, Inc. will hold its Annual Meeting of Stockholders on Thursday, February 17, 2005 at 1:00 p.m. at the Sheraton Palo Alto Hotel, Justine s Room, 625 El Camino Real, Palo Alto, California 94301.

At this annual meeting we will ask you:

- to elect three directors to serve until the 2008 Annual Meeting of Stockholders and one director to serve until the 2007 Annual Meeting of Stockholders;
- to approve the adoption of the Varian Medical Systems, Inc. 2005 Omnibus Stock Plan;
- to ratify the selection of PricewaterhouseCoopers LLP as our independent auditors for fiscal year 2005; and
- to transact any other business that properly comes before the annual meeting.

Your Board of Directors has selected December 20, 2004 as the record date for determining stockholders entitled to vote at the annual meeting. A list of stockholders as of that date will be available for inspection during ordinary business hours at our offices at 3100 Hansen Way, Palo Alto, California 94304 for ten days before the meeting.

This Proxy Statement, a proxy card and our 2004 Annual Report on Form 10-K are being distributed on or about December 28, 2004 to those entitled to vote.

By Order of the Board of Directors,
Joseph B. Phair
Secretary

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GENERAL INFORMATION

Q: Who is soliciting my proxy?

A: The Board of Directors the Board of Varian Medical Systems, Inc. the Company is sending you this Proxy Statement in connection with our solicitation of proxies for use at the 2005 Annual Meeting of Stockholders the Annual Meeting. Certain directors, officers and employees also may solicit proxies on our behalf by mail, phone, fax or in person. Georgeson Shareholder Communications, Inc., 111 Commerce Road, Carlstadt, New Jersey 07072-2586, has been hired to assist in soliciting proxies from brokers, bank nominees and other stockholders.

Q: Who is paying for this solicitation?

A: The Company will pay for the solicitation of proxies. The Company's directors, officers and employees will not receive extra remuneration. The Company will pay Georgeson Shareholder Communications, Inc. not more than \$25,000, plus reasonable out-of-pocket expenses, and also will reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of our common stock.

Q: What am I voting on?

A: Proposal One is for the election of Susan L. Bostrom, R. Andrew Eckert, Richard M. Levy and Allen S. Lichter, M.D. to the Board. Mr. Levy, Dr. Lichter and Ms. Bostrom have been nominated for election for three-year terms ending at the 2008 Annual Meeting of Stockholders. Mr. Eckert has been nominated for election for a two-year term ending at the 2007 Annual Meeting of Stockholders.

Proposal Two is for the approval of the Varian Medical Systems, Inc. 2005 Omnibus Stock Plan the 2005 Omnibus Stock Plan.

Proposal Three is for the ratification of the Company's selection of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal year 2005.

Q: Who can vote?

A: Only those people who owned the Company's common stock at the close of business on December 20, 2004, the record date for the Annual Meeting, may vote. Each share of common stock outstanding on that date is entitled to one vote on all matters to come before the meeting, except that cumulative voting will apply in the election of directors. Under the cumulative voting method of election, the stockholder computes the number of votes available to the stockholder by multiplying the number of shares the stockholder owned on the record date by the number of directors to be elected, and may cast the votes all for a single nominee or may distribute them in any manner among the nominees.

Q: How do I vote?

A: You may vote your shares either in person or by proxy. To vote by proxy, you should mark, date, sign and mail the enclosed proxy card in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person by voting you automatically revoke your proxy. You also may revoke your proxy at any time before the voting by giving our Secretary written notice of your revocation or by submitting a later-dated proxy. If you sign and return your proxy card in time, the individuals named as proxyholders will vote your shares as you instruct. If you sign and return your proxy card but do not mark your voting instructions, the individuals named as proxyholders will vote your shares **FOR** the election of the nominees for director, **FOR** approval of the 2005 Omnibus Stock Plan and **FOR** the ratification of the Company's selection of

PricewaterhouseCoopers LLP as the Company's independent auditors.

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Q: What constitutes a quorum?

A: On the record date, Varian Medical Systems, Inc. had 133,520,672 shares of common stock, \$1.00 par value, outstanding. Voting can take place at the Annual Meeting only if stockholders owning a majority of the issued and outstanding stock entitled to vote at the meeting are present in person or represented by proxy. We include the shares of persons who abstain in determining those present and entitled to vote. We also include shares held by brokers in street or nominee name when the broker has discretionary authority to vote on at least one matter.

Q: What vote is needed?

A: For Proposal One, the election of directors, the four nominees receiving the highest number of votes of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting on the election of directors shall be elected as directors. As a result, if you withhold your authority to vote for any nominee, your vote will not affect the outcome of the election. Broker non-votes votes that brokers do not have the discretion to cast because they have not received instructions from the beneficial holders also have no effect on the outcome of the election.

For Proposal Two, the approval of the 2005 Omnibus Stock Plan, an affirmative vote of the majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on Proposal Two is required in order to approve the 2005 Omnibus Stock Plan. An abstention on Proposal Two will be included in the total number of shares entitled to vote and, therefore, will have the effect of a vote against the proposal. Broker non-votes in respect of this proposal will not affect the outcome of the proposal.

For Proposal Three, the ratification of the Company's selection of PricewaterhouseCoopers LLP as the Company's independent auditors, an affirmative vote of the majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on Proposal Three is required in order to ratify the selection of PricewaterhouseCoopers LLP. An abstention on Proposal Three will be included in the total number of shares entitled to vote and, therefore, will have the effect of a vote against the proposal. Broker non-votes in respect of this proposal will not affect the outcome of the proposal.

Q: Can I vote on other matters?

A: Our by-laws limit the business conducted at any annual meeting to (1) business in the notice of the meeting, (2) business directed by the Board and (3) business brought by a stockholder of record entitled to vote at the meeting so long as the stockholder has notified our Secretary in writing (at our Palo Alto headquarters) not less than 60 days nor more than 90 days before the anniversary of the mailing of the proxy statement for the prior year's annual meeting. The notice must briefly describe the business to be brought and the reasons; give the name, address and number of shares owned by the stockholder of record and any beneficial holder for which the proposal is made; and identify any material interest the stockholder of record or any beneficial owner has in the business.

We do not expect any matters other than the election of the directors, the approval of the 2005 Omnibus Stock Plan and the ratification of the Company's selection of PricewaterhouseCoopers LLP as the Company's independent auditors to come before the Annual Meeting. If any other matter is presented, your signed proxy card gives the individuals named as proxyholders the authority to vote your shares to the extent authorized by Rule 14a-4(c) under the Securities Exchange Act of 1934 the Exchange Act (which would include matters that the proxyholders did not know were to be presented at least 60 days before the anniversary of the mailing of last year's proxy statement).

Q: When are stockholder proposals due for the 2006 Annual Meeting?

A: To be considered for presentation in the proxy statement and on the proxy card for our 2006 Annual Meeting of Stockholders, a stockholder proposal must be received no later than August 30, 2005.

Q: How do I nominate someone to be a director?

A: A stockholder may nominate one or more persons for election as a director of the Company at an annual meeting of stockholders by notifying our Secretary in writing (at our Palo Alto headquarters) not less than 60 days nor more than 90 days before the anniversary of the mailing of the proxy statement for the prior year's annual meeting. The notice must include the full name, age, business and residence addresses, principal occupation or employment of the potential candidate, the number of shares of the Company's common stock the nominee beneficially owns, any other information about the nominee that must be disclosed in proxy solicitations under Rule 14(a) of the Exchange Act and the nominee's written consent to the nomination and to serve, if elected.

Q: How does the Board select nominees for the Board?

A: The Company's Nominating and Corporate Governance Committee will consider potential candidates for directors submitted by stockholders, in addition to those suggested by other Board members and the Company's management, and does not evaluate candidates differently based upon the source of the nominee. The Nominating and Corporate Governance Committee considers and evaluates each properly submitted potential candidate for directorship in an effort to achieve a balance of knowledge, experience and capability on the Board, as well as to ensure that the composition of the Board at all times adheres to the independence requirements applicable to New York Stock Exchange listed companies and other regulatory requirements applicable to the Company. A stockholder may recommend potential candidates for director by notifying our Secretary in writing (at our Palo Alto headquarters).

Q: Are there any minimum qualifications required for a director nominee?

A: As set forth in its charter and in the Company's Corporate Governance Guidelines, the Nominating and Corporate Governance Committee's criteria for selecting director nominees include: knowledge, skills, experience in business, finance, administration and relevant technical disciplines; business management experience; international business experience and experience in industries beyond healthcare; knowledge about our industry and technology or other areas of knowledge useful to the Company's business and product lines; social experience; gender and racial diversity and other attributes that the Nominating and Corporate Governance Committee determines will contribute to the Company's success and achievement of its business and social goals. The Nominating and Corporate Governance Committee will also consider the candidate's ability to serve the long-term interests of the Company's stockholders and availability to devote time to the Company's affairs. Please see our Corporate Governance Guidelines for additional details on our policy, process and membership criteria.

Q: How may I communicate with the Board of Directors?

A: Stockholders may communicate directly with the Board through the Board's lead director by sending and e-mail to lead.director@varian.com. Messages intended for a specific director will be forwarded to such director.

**PROPOSAL ONE
ELECTION OF DIRECTORS**

Varian Medical Systems, Inc.'s Board of Directors is divided into three classes serving staggered three-year terms. At the Annual Meeting, you and the other stockholders will elect three individuals to serve as directors for three-year terms that expire at the 2008 Annual Meeting and one individual to serve as a director for a two-year term that expires at the 2007 Annual Meeting. All four nominees, Susan L. Bostrom, R. Andrew Eckert, Richard M. Levy and Allen S. Lichter, M.D., are now members of the Board. Ms. Bostrom was appointed by the Board in June, 2004 to fill a newly created seat on the Board for the term expiring at the 2005 Annual Meeting. Mr. Eckert was appointed to the Board in October, 2004 to fill the seat left vacant by the death of Terry R. Lautenbach, which term expires at the 2007 Annual Meeting, with stockholder approval at the 2005 Annual Meeting.

The individuals named as proxyholders will vote your proxy for the election of the four nominees unless you direct them to withhold your votes. If any nominee becomes unable to serve as a director before the meeting (or decides not to serve), the individuals named as proxyholders may vote for a substitute.

Below are the names and ages of the Company's directors, the years they became directors, their principal occupations or employment for at least the past five years and directorships they hold in other public companies.

Nominees for Election for a Three-Year Term Ending with the 2008 Annual Meeting

- Susan L. Bostrom Age 44, a director of the Company since 2004. Senior Vice President of the Internet Business Solutions Group at Cisco Systems, Inc. (a networking equipment provider) since February 2000 and added responsibility for Worldwide Government Affairs in October, 2000. From 1998 to February 2000, Vice President of the Internet Business Solutions Group at Cisco Systems, Inc. Also a director of Cadence Design Systems, Inc. (a provider of electronic design automation technologies and engineering services).
- Richard M. Levy Age 66, a director since 1999. Our Chairman of the Board since February 14, 2003 and President and Chief Executive Officer since April 2, 1999. Previously, our Executive Vice President responsible for our medical systems business from 1990 to April 2, 1999. Also a director of Pharmacyclics, Inc. (a pharmaceutical company).
- Allen S. Lichter, M.D. Age 58, a director since 2003. Dean of the University of Michigan Medical School since 1999, after first serving as interim Dean starting December 1, 1998 while concurrently maintaining his position as professor of radiation oncology in the University's Department of Radiation Oncology.

Nominee for Election for Two-Year Term Ending with the 2007 Annual Meeting

- R. Andrew Eckert Age 43, a director of the Company since 2004. Chief Executive Officer of SumTotal Systems, Inc. (a enterprise software provider). From 2002 to 2004, Chief Executive Officer of Docent Inc. (a enterprise software provider). Previously, Chairman and Chief Executive Officer of ADAC Laboratories (a medical imaging company) from 1997 to 2000. Also a director of Connetics Corporation (a specialty pharmaceutical company) and for Chordiant Software, Inc. (an enterprise software company).

Directors Continuing in Office Until the 2007 Annual Meeting

- **John Seely Brown** Age 64, a director since 1998. Retired; former Vice President of Xerox Corporation from 1986 to 2002 and Chief Scientist from 1992 to 2002. Director of the Xerox Palo Alto Research Center from 1990 to 2000. Also a director of Corning Incorporated (a diversified technology company) and Polycom, Inc. (a provider of video, voice, data and web conferencing solutions).
- **Samuel Hellman, M.D.** Age 70, a director since 1992. A. N. Pritzker Distinguished Service Professor in the Department of Radiation and Cellular Oncology at the University of Chicago since 1993.

Directors Continuing in Office Until the 2006 Annual Meeting

- **David W. Martin, Jr., M.D.** Age 63, a director since 1994. Chairman and Chief Executive Officer of AvidBiotics, Inc. (a biotech company) since 2004. Previously, Chairman and Chief Executive Officer of GangaGen, Inc. (a biotechnology company) from 2003 to 2004. From 1997 to 2003, Chief Executive Officer of Eos Biotechnology, Inc. (a biotechnology company). Also a director of Cubist Pharmaceuticals, Inc. (a biopharmaceutical company).
- **Ruediger Naumann-Etienne** Age 58, a director since 2003. Chairman of the Board of Directors of Quinton Cardiology Systems (a medical equipment company) since 2000. From 1993 to 1999, Chairman of the Board of Directors of OEC Medical Systems (a provider of interoperative imaging solutions, acquired by General Electric Corporation). Owner and Managing Director of Intertec Group (an investment company specializing in the medical technology field) since 1989. Also a director of BioRad Laboratories, Inc. (a provider of research and clinical diagnostic products).

Corporate Governance; the Board and Committees of the Board; and Meetings

The Company has policies and practices that are compliant with the New York Stock Exchange listing requirements and the Exchange Act, including the following:

- The Board has adopted clear corporate governance policies articulated in the Company's Corporate Governance Guidelines, which includes basic director duties and responsibilities.
- The Board has also adopted a Code of Business Ethics applicable to all of the Company's employees, including the executive officers.
- The Company has hotlines for employees to report ethics and financial matters, including accounting, internal controls and audit concerns, and the Audit Committee has established procedures for anonymous submission of these matters.
- The Board conducts an annual self-assessment on its effectiveness and the effectiveness of each of its committees.
- Directors are expected to attend all stockholder meeting, and all directors were in attendance at the Company's 2004 annual meeting of stockholders (except Ms. Bostrom and Mr. Eckert, neither of whom were serving as directors at that time).
- The Board has a retirement age of 70, which the Board has suspended for Samuel Hellman, M.D. so that he may serve until the 2007 Annual Meeting, which is the expiration of the full 3-year term to which he was elected by the stockholders of the Company.

The Board met four times in fiscal year 2004, with executive sessions of the independent directors at each of these Board meetings that was led by the lead director. The Board has determined that all directors, except Mr. Levy, our Chairman of the Board, President and Chief Executive Officer, are independent directors as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines. In making this determination, the Board considered transactions and relationships between each director or his or her immediate family and the Company and its subsidiaries, including those of Drs. Hellman and Lichter reported in the section below captioned, Certain Relationships and Transactions. The purpose of this review was to determine whether any such relationships or transactions were material and, therefore, inconsistent with a determination that the director is independent. As a result of this review, the Board affirmatively determined, based on its understanding of such transactions and relationships, that Drs. Hellman and Lichter are independent directors.

We have six standing committees: Audit Committee, Compensation and Management Development Committee, Executive Committee, Nominating and Corporate Governance Committee, Strategy and Technology Committee and Stock Grant Committee. Each of these committees, except for the Stock Grant Committee, has a written charter approved by the Board. A copy of the charters for the Audit Committee, the Compensation and Management Development Committee and the Nominating and Corporate Governance Committee, as well as the Company's Corporate Governance Guidelines and Code of Business Ethics, can be found at the Corporate Governance link under the Investor Relations webpage at www.varian.com and are available in printed hardcopy format upon written request to our Secretary at our Palo Alto headquarters. Mr. Lautenbach was a member of the Board; a member of the Audit Committee, Compensation and Management Development Committee, Executive Committee, Nominating and Corporate Governance Committee and Strategy and Technology Committee; and our lead director until he passed away in June, 2004. Dr. Martin was appointed lead director in August, 2004.

Audit Committee

- Oversees the Company's accounting and financial reporting process and audits of financial statements.
- Assists the Board in oversight and monitoring of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of the Company's internal audit function and of the independent auditors.
- Reports to the Board the results of its monitoring and recommendations.
- Provides to the Board such additional information and materials as the committee may determine is necessary to make the Board aware of significant financial matters requiring the Board's attention.

The current members are Mr. Naumann-Etienne (Chairman), Ms. Bostrom, Mr. Eckert and Dr. Martin. Mr. Eckert was just appointed to the Audit Committee at the Board's November 19, 2004 meeting, so he did not have an opportunity to attend any meetings of this committee in fiscal year 2004. The Audit Committee met six times in fiscal year 2004. The Board has determined that each member of the Audit Committee is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines. The Board has determined that Mr. Naumann-Etienne is an audit committee financial expert as defined in Item 401(k) of Regulation S-K of the Exchange Act based upon his experience as the chief financial officer and principal accounting officer of Dasonics, Inc. between 1984 and 1987 and as group controller for Texas Instruments between 1982 and 1984, and his formal education represented by his doctorate degree in international finance from the University of Michigan.

Compensation and Management Development Committee

- Provides advice on management matters that have major implications to the development of the Company.
- Administers the Company's stock and cash incentive plans.
- Discharges the Board's responsibilities relating to compensation of the Company's executive officers, including the determination of compensation of the President and Chief Executive Officer and the other senior executives.
- Evaluates the Company's compensation plans, policies and programs for executive officers and recommends the establishment of policies dealing with various compensation and employee benefit plans.

The current members are Dr. Hellman (Chairman), Ms. Bostrom, Mr. Brown, Mr. Eckert, Dr. Lichter, Dr. Martin and Mr. Naumann-Etienne. Mr. Eckert was just appointed to the Compensation and Management Development Committee at the Board's November 19, 2004 meeting, so he did not have an opportunity to attend any meetings of this committee in fiscal year 2004. The Compensation and Management Development Committee met four times in fiscal year 2004. Each of the members of this committee is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines and is an outside director for purposes of Section 162(m) of the Internal Revenue Code Section 162(m).

Executive Committee

- Acts on matters when a meeting of the full Board is impracticable.
-