

LEE SARA CORP  
Form 10-K  
September 02, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended July 2, 2005**

**Commission file number 001-03344**

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**Sara Lee Corporation**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State of incorporation)

**Three First National Plaza**  
**Chicago, Illinois**  
(Address of principal executive offices)

**36-2089049**  
(I.R.S. Employer Identification No.)

**60602-4260**  
(Zip Code)

Registrant's telephone number including area code: (312) 726-2600

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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.01 par value per share	The Chicago Stock Exchange
	The New York Stock Exchange
	The Pacific Exchange
	Euronext Amsterdam Stock Market N.V.
	Euronext Paris S.A. Stock Market
	The Swiss Exchange
	The Stock Exchange (London)
Preferred Stock Purchase Rights	The Chicago Stock Exchange
	The New York Stock Exchange
	The Pacific Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

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Indicate by check mark whether the registrant (1) has filed all required reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).  Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

On August 6, 2005, the registrant had outstanding 784,552,128 shares of common stock, par value \$.01 per share, which is the registrant's only class of common stock.

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The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on December 31, 2004, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$19 billion (based upon the closing price per share of the registrant's common stock on the New York Stock Exchange on such date).

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the fiscal year ended July 2, 2005 are incorporated by reference into Parts I, II and IV of this Form 10-K, and are filed as Exhibit 13. Portions of the registrant's Proxy Statement for its 2005 annual meeting of stockholders are incorporated by reference into Item 5 of Part II and Items 10-14 of Part III of this Form 10-K.

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**PART I**

**Item 1. Business**

Sara Lee Corporation ( Sara Lee, we, our or the Company ) is a global manufacturer and marketer of high-quality, brand-name products for consumers throughout the world. With headquarters in Chicago, Illinois, Sara Lee has operations in 58 countries and markets products in nearly 200 nations. The Company was organized in Baltimore, Maryland in 1939 as the C.D. Kenny Company and adopted its current name in 1985.

**Business Developments during Fiscal Year 2005**

In February 2005, Sara Lee announced a comprehensive Transformation plan, including a new organization structure that became effective at the beginning of fiscal year 2006. Sara Lee's new organization structure consists of three lines of business:

Sara Lee Food & Beverage, which consists of the bakery, packaged meats and *Senseo* coffee retail businesses in North America.

Sara Lee Foodservice, which consists of the bakery, coffee and meats foodservice businesses in North America.

Sara Lee International, which consists of the bakery and beverage businesses outside of North America, the global household products business and the European packaged meats business.

Sara Lee also announced its intent to spin off its Branded Apparel Americas/Asia businesses into an independent public company. The timing and structure of the spin off has not yet been determined; however the spin off is expected to be completed in fiscal 2006.

In addition, Sara Lee announced portfolio actions that include the sale of Sara Lee Meats Europe, a packaged meat business with popular European brands such as *Aoste* and *Imperial*, which holds its largest positions in France and the Benelux region; Direct Selling, a global business that sells cosmetics, household products, apparel and other products to consumers through a network of independent sales people in countries around the world, most notably in Mexico, Australia, the Philippines and Japan; and U.S. Retail Coffee, a business with well-known, regional retail coffee brands such as *Chock full o' Nuts*, *Hills Bros.*, *MJB* and *Chase & Sanborn*, but not including the *Senseo* brand.

On August 10, 2005, Sara Lee announced that it has entered into an agreement with Tupperware Corporation for the sale of the Direct Selling business for \$557 million. The transaction has been approved by both companies' boards of directors and is expected to close in the second quarter of fiscal 2006, subject to regulatory approvals and other customary closing conditions.

In connection with the Transformation plan, on February 9, 2005, Brenda C. Barnes was named Sara Lee's President and Chief Executive Officer. Ms. Barnes joined Sara Lee in July 2004 as its President and Chief Operating Officer. C. Steven McMillan, formerly Sara Lee's Chief Executive Officer, will continue to serve as Sara Lee's Chairman through the 2005 annual meeting.

**Description of the Business**

During fiscal year 2005, Sara Lee had five reportable segments – Sara Lee Meats, Sara Lee Bakery, Beverage, Household Products and Branded Apparel. The Company’s products and services include fresh and frozen baked goods, processed meats, coffee and tea, beverage systems, intimate apparel, underwear, sportswear, legwear and other apparel, and personal, household and shoe care products. Results of operations for fiscal year 2005 are presented based upon this reporting structure.

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### **Sara Lee Meats**

Sara Lee Meats sells a variety of meat products, including hot dogs and corn dogs, breakfast sausages and sandwiches, smoked and dinner sausages, premium deli and luncheon meats, bacon, meat snacks and cooked and dry hams. Sara Lee Meats' significant brands include *Hillshire Farm*, *Ball Park*, *Imperial*, *Jimmy Dean*, *Sara Lee*, *Bryan*, *State Fair*, *Kahn's* and *Best's Kosher* in the U.S.; *Nobre*, *Aoste*, *Stegeman*, *Justin Bridou* and *Cochonou* in Europe; and *Kir*, *Zwan* and *Duby* in Mexico.

Sara Lee Meats primarily sells its products in the U.S., western and central Europe and Mexico, and 67% of the segment's fiscal 2005 sales were generated in U.S. dollars, 28% in euros and 5% in Mexican pesos. Sales are made in both the retail channel to supermarkets, warehouse clubs and national chains, and in the foodservice channel to foodservice distributors and large operators. Sales are generally transacted through Sara Lee's own sales force and outside brokers.

The primary raw materials for Meats' products include pork, turkey, beef and chicken, which are purchased almost entirely from independent farmers and vendors. Sara Lee does not rely on any one vendor or small group of vendors for these raw materials and prices fluctuate based primarily on supply and demand.

The top 20 customers of the Sara Lee Meats business represent approximately 54% of the segment's sales. The meats business is highly competitive, with an emphasis on product quality, innovation and price. New product innovations are a key component to success. The Meats segment competes with other international, national, regional and local companies in each of the product groups.

Most of Sara Lee Meats' operations are regulated by the U.S. Department of Agriculture, whose focus is the quality, sanitation and safety of meat products, and to a lesser extent by state and local government agencies. Sara Lee Meats' operations in Europe and Mexico are regulated by local authorities.

The Sara Lee Meats' business accounted for 22.1%, 21.8% and 20.9% of Sara Lee's consolidated sales during fiscal 2005, 2004 and 2003, respectively.

### **Sara Lee Bakery**

Sara Lee Bakery produces a wide variety of fresh and frozen baked products and specialty items, including bread, buns, bagels, rolls, muffins, specialty bread, refrigerated dough, frozen pies, cakes, cheesecakes and other desserts. Sara Lee Bakery's significant brands include *Sara Lee*, *Earth Grains*, *Grant's Farm*, *Colonial*, *Rainbo*, *Holsum*, *IronKids*, *Mother's*, *Sunbeam*, *Healthy Choice*, *Roman Meal* and *Chef Pierre* in the U.S.; *Bimbo*, *Ortiz* and *CroustiPate* in Europe; and *Sara Lee*, *Bon Gateaux* and *Universal Foods* in Australia. Certain of the brands are used under licensing arrangements; however sales of products sold under licensing arrangements represent less than 7% of Sara Lee Bakery's total sales.

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Sara Lee Bakery primarily sells its products in the U.S., western and central Europe and Australia, and 76% of the segment's fiscal 2005 sales were generated in U.S. dollars, 20% in euros and 3% in Australian dollars. Sales are made in both the retail channel to supermarkets, warehouse clubs and national chains, and in the foodservice channel to foodservice distributors, restaurants and other institutions. Sales primarily are made through Sara Lee's sales force and independent wholesalers. The Bakery business offers delivery directly to retail customer stores and warehouses through its direct store delivery system, which maintains approximately 5,500 delivery routes.

Sara Lee Bakery's primary raw materials include wheat flour, sugar, corn syrup, butter, fruit, eggs and cooking oils, which are purchased from independent suppliers. The Bakery segment does not rely on any one vendor or small group of vendors for these raw materials, and prices fluctuate based upon supply and demand, weather and government price supports.



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Sara Lee Bakery's top 20 customers represent approximately 51% of its sales. The bakery business is highly competitive, with an emphasis on product quality, innovation and value. New product innovations drive growth in this segment. The Bakery segment competes with other international, national, regional and local companies in each of the product groups. Sara Lee Bakery competes in these markets by endeavoring to offer superior product quality and value, utilizing marketing strategies that are designed to reinforce and build brand recognition, and by endeavoring to provide superior customer service.

In the United States, Sara Lee Bakery products are subject to regulation by the Food and Drug Administration, the federal agency charged with, among other things, enforcing laws pertaining to food processing, content and labeling, by similar groups in foreign countries and, to a lesser extent, by state and local government agencies.

Sara Lee's Bakery business accounted for 17.1%, 17.9% and 18.3% of Sara Lee's consolidated revenues during fiscal 2005, 2004 and 2003, respectively.

## **Sara Lee Beverage**

The Beverage business produces coffee and tea products that are sold in major markets around the world including the U.S., Europe, Australia and Brazil. In Europe, some of Beverage's more prominent brands are *Douwe Egberts*, *Senseo*, *Maison du Café*, *Marcilla*, *Merrild* and *Pickwick*. In the U.S., significant brands include *Chock full o' Nuts*, *Hills Bros.*, *Chase & Sanborn* and *Superior*, and in South America, significant brands include *Café do Ponto*, *Café Caboclo*, *União* and *Café Pilão*. Sara Lee Beverage also provides coffee and dispensing equipment in Europe and in the United States.

Fifty percent of the segment's fiscal 2005 sales were generated in euros, 30% in U.S. dollars, 6% in Brazilian real and 3% in Australian dollars. Sales are made in both the retail channel to supermarkets, warehouse clubs and national chains, and in the foodservice channel to foodservice distributors. The Beverage segment also offers direct delivery to restaurants and warehouses through its direct delivery system.

The top 20 customers of the Beverage business represent approximately 40% of the segment's sales. The beverage business is highly competitive, with an emphasis on quality and value. The Beverage segment competes with other international and regional companies by continuing to introduce new and innovative products to meet consumers' needs and endeavoring to offer its customers superior product quality and value.

The most significant cost item in the production of coffee products is the price of green coffee beans, which are purchased from farmers and coffee bean vendors in various countries in the world. The price of green coffee fluctuates based upon supply and demand, weather, the political climate in the producing nations, unilateral pricing policies of various nations, speculation in the commodities markets and the relative valuations and fluctuations of the currencies of producer versus consumer countries. These factors also generally affect Sara Lee Beverage's competitors. The Beverage business mitigates the effect of fluctuating green coffee prices through careful inventory management.

Sara Lee's Beverage business accounted for 17.4%, 16.5% and 15.4% of Sara Lee's consolidated revenues during fiscal 2005, 2004 and 2003, respectively.

**Sara Lee Branded Apparel**

Branded Apparel sources, manufactures and markets basic branded innerwear products primarily in three categories intimate apparel, underwear/activewear and legwear. Products in the intimate apparel category include bras, panties, shapewear and other women's undergarments. Sara Lee's legwear products consist of a wide variety of branded, packaged consumer products, including pantyhose, combination panty and pantyhose garments, tights, knee-highs and socks. Sara Lee's sportswear products include basic fleece, T-shirts, sportshirts

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and other jersey products. Branded Apparel's principal brands include *Hanes*, *Champion*, *Playtex*, *Leggs*, *barely there*, *Bali*, *Just My Size* and *Wonderbra* in the U.S. and *Dim*, *Playtex*, *Unno*, *Nur Die*, *Lovable* and *Wonderbra* in Europe.

Branded Apparel primarily sells its products in the U.S. and Europe, and 68% of the segment's fiscal 2005 sales were generated in U.S. dollars, 16% in euros and 8% in British pounds. Distribution channels range from department and specialty stores for premium brands to warehouse clubs and mass-merchandise outlets for certain value-priced brands. Sales are transacted through Branded Apparel's sales force.

Branded Apparel's top 20 customers represent approximately 55% of the segment's fiscal 2005 sales. Approximately 22% of this segment's fiscal 2005 sales were to Wal-Mart Stores Inc. The branded apparel business is highly competitive, with an emphasis on product value and quality. Manufacturers rely on their products' brand recognition, quality, price and customer loyalty. While many products such as white underwear, athletic socks, basic fleece products and T-shirts are not subject to significant change year-to-year, other products such as intimate apparel have a heavier emphasis on style and innovation. Branded Apparel competes against other national and international manufacturers. In addition, the consolidation of the retail trade has resulted in certain customers developing their own brands and sourcing product needs from third-party manufacturers. The sheer hosiery segment of the legwear business is challenging, as worldwide demand for sheer hosiery products has declined over the last several years. Branded Apparel competes by endeavoring to offer superior value, make use of low-cost sourcing and execute integrated marketing activities.

The primary raw materials used in the production of Branded Apparel products include various natural and synthetic fabrics and fibers, including those made from cotton, nylon, spandex and certain elastics that are purchased from various independent suppliers. Sara Lee relies on a small group of suppliers to provide sewing services and certain textiles and yarns that are used in production. The largest of these specific suppliers provides approximately 13% of Branded Apparel's estimated manufacturing needs. Alternative sources of supply exist for each of these products, services and the other raw materials that are used in production. Prices for raw materials fluctuate based upon supply and demand, the fluctuating cost of cotton, which is affected by weather (which affects the quality and quantity of available supplies), consumer demand, speculation on the commodities market and the relative valuations and fluctuations of the currencies of producer versus consumer countries.

On January 1, 2005, the World Trade Organization completed a 10-year plan to phase out import quotas that limit the number of apparel products that can be imported into the U.S. from certain countries. Approximately 180 countries ship apparel products to the U.S. Branded Apparel sources products from a number of countries and regularly evaluates its sourcing options. In evaluating sourcing alternatives, Branded Apparel considers factors such as quality, style, delivery times and manufacturing flexibility, in addition to the cost of manufacturing the apparel products and compliance with specific operating standards. Branded Apparel will continue to evaluate its product sourcing strategies, including the ability to relocate production sourcing to lower cost locations that previously may not have been available due to the import quotas. The phase out of import quotas also could potentially allow new competitors to enter the apparel business, including both new domestic as well as foreign competitors who could establish manufacturing sites in these foreign locations. It is unclear what the long-term implications will be from the elimination of these quotas.

Sara Lee's Branded Apparel business accounted for 33.4%, 33.7% and 35.8% of Sara Lee's consolidated revenues during fiscal 2005, 2004 and 2003, respectively.

## **Household Products**

Household Products produces and sells products in four primary product categories—body care, air care, shoe care and insecticides. Body care products consist of soaps, shampoos, bath and shower products, deodorants, shaving creams and toothpastes that are sold primarily in Europe

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under brands such as *Sanex*, *Duschdas*, *Radox*, *Monsavon* and *Prodent*. Air care products consist of air fresheners under the *Ambi Pur* brand

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in the U.S., Europe and certain Asian countries. Shoe care products consist of polishes, cleaners and wax under the *Kiwi* and *Meltonian* brands sold in many countries. Insecticides are sold primarily in Europe and Asia under brands such as *Vapona*, *Catch*, *GoodKnight*, *Bloom* and *Ridsect*. These products are sold through a variety of retail channels, including supermarkets.

Fifty percent of the segment's fiscal 2005 sales were in euros, 12% in British pounds, 5% in U.S. dollars, and the remaining amount was generated primarily in the Asia-Pacific region and other portions of Europe.

The top 20 customers of the Household Products business represent approximately 36% of the segment's sales. The household products business is highly competitive, with an emphasis on innovation, quality and value. The Household Products segment experiences higher sales in the second half of the fiscal year, as sales of both body care products and insecticides increase in anticipation of the warmer summer months.

Sara Lee's Household Products business, excluding the Direct Selling business which is reported as a discontinued operation in Sara Lee's financial statements, accounted for 10%, 10.1% and 9.6% of Sara Lee's consolidated revenues during fiscal 2005, 2004 and 2003, respectively.

On August 10, 2005, Sara Lee announced that it had signed an agreement to sell the Direct Selling business for \$557 million and that the transaction is expected to close in the second quarter of fiscal 2006, subject to regulatory approvals and other customary closing conditions. Accordingly, the Direct Selling business is classified as a discontinued operation in Sara Lee's fiscal 2005 financial statements. The Direct Selling business, which previously was reported within the Household Products segment, sells body care and air care products such as hair care, deodorants, moisturizers and fragrances as well as jewelry and cosmetics primarily in Australia, Mexico, Argentina, Indonesia, the Philippines and South Africa. Sales to consumers are made through a worldwide network of independent sales representatives. Direct Selling includes the *Nutrimetics*, *House of Fuller* and *NaturCare* businesses.

## **Customers**

Sara Lee considers major mass retailers and supermarket chains in both the United States and Europe to be significant customers across one or more business segments, and it has developed specific approaches to working with these individual customers. During fiscal 2005, Wal-Mart Stores Inc. was Sara Lee's largest customer. Net sales to Wal-Mart Stores Inc. were \$2.4 billion, or 12.7% of Sara Lee's fiscal 2005 net sales. The Branded Apparel business made sales of approximately \$1.4 billion, or 22% of its fiscal 2005 net sales, to Wal-Mart Stores Inc. and the Sara Lee Meats and Sara Lee Bakery businesses were responsible for \$961 million of the remaining sales. Although no other single customer accounts for 10% or more of Sara Lee's consolidated revenues, the loss of one of our major mass retailer or supermarket chain customers could have a material adverse effect on one or more of our business segments.

## **Trademarks**

Sara Lee is the owner of approximately 40,000 trademark registrations and applications in more than 180 countries and believes that, as it continues to build brands globally, its trademarks are among its most valuable assets. Although the laws vary by jurisdiction, trademarks generally are valid as long as they are in use and/or their registrations are properly maintained and have not been found to have become generic. Trademark registrations generally can be renewed indefinitely as long as the trademarks are in use. Sara Lee believes that its core brands are covered by trademark registrations in most countries of the world in which Sara Lee does business, and Sara Lee has an active program designed to ensure that its marks and other intellectual property rights are registered, renewed, protected and maintained. Some of Sara Lee's products are

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sold under brands that have been licensed from third parties. Sara Lee also owns a number of valuable patents; however, it does not regard any segment of its business as being dependent upon any single patent or group of related patents. In addition, Sara Lee owns numerous copyrights, both registered and unregistered, and proprietary trade secrets, technology, know-how processes and other intellectual property rights that are not registered.

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### **Seasonality**

Generally, seasonal changes in demand for certain Sara Lee products are offset by Sara Lee's diverse product offerings. Seasonality in the Sara Lee Meats segment is balanced by the diverse offering of products that tend to offset seasonal changes in demand. For example, sales of hot dogs and lunchmeat increase during the summer months, and ham and breakfast sausage sales increase during the winter holiday periods. Seasonality in the Sara Lee Bakery segment is balanced by the diverse offering of products that tend to offset the seasonal changes in demand. For example, sales of buns increase in the warm summer months, and sales of dough products, specialty cakes and pies increase for the winter holiday season. Seasonal sales increases for Beverage products are experienced in the second quarter due to higher consumer consumption in the winter months. In the Branded Apparel business, on a constant currency basis, sales are typically higher in the first two quarters of each year. Socks, hosiery and fleece products generally have higher sales in this period as a result of the cooler weather and back-to-school shopping. Sales levels in a period are also impacted by retailers' decisions to increase or decrease inventory levels in response to anticipated consumer demand. The Household Products segment experiences higher sales in the second half of the fiscal year, as sales of both body care products and insecticides increase in anticipation of the warmer summer months.

In total during fiscal 2005, 24.7% of Sara Lee's consolidated sales were recognized in the first quarter, 26.3% in the second quarter, 24.3% in the third quarter and 24.7% in the fourth quarter.

### **Regulations**

Sara Lee's U.S. Meats, Bakery and Beverage operations, food products and packaging materials are subject to regulations administered by the U.S. Department of Agriculture and the Food and Drug Administration. Among other things, these agencies enforce statutory prohibitions against misbranded and adulterated foods; establish safety standards for food processing; establish standards for ingredients and manufacturing procedures for certain foods; establish standards for identifying certain foods; determine the safety of food additives; and establish labeling standards and nutrition labeling requirements for food products. In addition, various states regulate these businesses by enforcing federal and state standards of identity for selected food products, grading food products, inspecting plants and imposing their own labeling requirements on food products.

Sara Lee buys livestock, meat and poultry products and processed food ingredients from numerous sources based on factors such as price, quality and availability. Many of these products and processed food ingredients are subject to governmental agricultural programs. These programs have substantial effects on prices and supplies and are subject to U.S. Congressional and administrative review.

The food industry is highly regulated on a worldwide basis, and Sara Lee's food operations outside of the U.S. are subject to local and national regulations that are similar in nature to those applicable to our U.S. businesses. In some cases, Sara Lee's food products are subject to international regulatory provisions, such as those of the European Union relating to labeling, packaging, food content, pricing, marketing and advertising and other areas.

Sara Lee's operations, like those of similar businesses, also are subject to various federal, state, and local environmental laws and regulations including the Clean Water Act, Clean Air Act, Solid Waste Disposal Act (as amended by the Resource Conservation and Recovery Act), Comprehensive Environmental Response, Compensation and Liability Act, Emergency Planning Community Right-to-Know Act, Safe Drinking Water Act, Toxic Substances Control Act, and the Federal Insecticide, Fungicide, and Rodenticide Act, and related state and local laws and regulations (collectively "Environmental Laws"). These Environmental Laws require permits for the discharge of pollutants into the air or water; impose limitations on the discharge of pollutants into the air or water; require the installation of pollution control equipment; establish standards

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for the treatment, storage, transportation, and disposal of solid and hazardous wastes; impose obligations to investigate and remediate contamination in certain circumstances; govern underground storage tanks; require reporting of certain information to the public; and impose other requirements intended to protect public health and the environment.



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While Sara Lee expects to make capital and other expenditures in compliance with Environmental Laws, it does not anticipate that such compliance will have a material adverse effect on its consolidated results of operations, financial position or cash flows. Sara Lee has an ongoing program to monitor compliance with Environmental Laws.

## **Employees**

Sara Lee employs approximately 137,000 employees worldwide in its continuing operations.

## **Information Available on Sara Lee's Web Site**

This Annual Report on Form 10-K and Sara Lee's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, any amendments to those reports, and other documents filed with or furnished to the Securities and Exchange Commission (SEC) are available on Sara Lee's Web site ([www.saralee.com](http://www.saralee.com), under Investors Stock Information SEC Reports) as soon as reasonably practicable after such documents are electronically filed with or furnished to the SEC.

The following documents also are available on Sara Lee's Web site, [www.saralee.com](http://www.saralee.com), under the captions indicated:

current versions of Sara Lee's corporate charter and bylaws, under Our Company

Corporate Governance Guidelines, under Investors-Corporate Governance

Global Business Standards, Sara Lee's corporate code of business conduct and ethics, and any amendments to or waivers of such code, if applicable, under Our Company-Global Business Practices

current charters for the Audit, Compensation and Employee Benefits, and Corporate Governance and Nominating Committees of Sara Lee's Board of Directors, under Our Company-Board of Directors-Board Committee Charters

procedures for communicating with Sara Lee's Board of Directors, or the chair of any committee of the Board, under Our Company-Board of Directors-Communications with the Board

A copy of Sara Lee's Corporate Governance Guidelines, Global Business Standards or the charter of Sara Lee's Audit, Compensation and Employee Benefits, or Corporate Governance and Nominating Committees will be sent to any stockholder without charge upon written request addressed to Sara Lee Corporation, Attn: Investor Relations Department, 70 W. Madison Street, Chicago, Illinois, 60602-4260, or by calling (312) 558-4947.

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Throughout this Annual Report and as permitted by the SEC, Sara Lee incorporates by reference certain information from parts of other documents filed or to be filed with the SEC, including Sara Lee's 2005 Annual Report to Stockholders and Sara Lee's Proxy Statement. Readers of this Annual Report on Form 10-K are encouraged to read the information referenced in such other documents. Portions of Sara Lee's 2005 Annual Report to Stockholders are filed as Exhibit 13 to this Form 10-K, and full copies of Sara Lee's 2005 Annual Report to Stockholders and Proxy Statement will be available, on or about September 21, 2005, on Sara Lee's Web site, [www.saralee.com](http://www.saralee.com), under Investors Reports and Documents.

### **Financial Information About Industry Segments**

For financial reporting purposes, Sara Lee's businesses are divided into five business segments: Sara Lee Meats, Sara Lee Bakery, Beverage, Household Products and Branded Apparel. Financial information about Sara Lee's business segments is incorporated herein by reference to Note 24, Business Segment Information, to the Consolidated Financial Statements contained in the Company's 2005 Annual Report to Stockholders.

### **Financial Information About Foreign and Domestic Operations and Export Sales**

Sara Lee's foreign operations are conducted primarily through wholly or partially owned subsidiaries incorporated outside the United States. Sara Lee's principal foreign subsidiary is Sara Lee/DE N.V., a

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Netherlands limited liability company headquartered in Utrecht, the Netherlands ( Sara Lee/DE ). Sara Lee/DE has responsibility for managing the foreign Beverage and worldwide Household Products divisions of Sara Lee. The foreign operations of Sara Lee's Meats and Bakery businesses are conducted by a number of subsidiaries, principally European, including Sara Lee/DE. Branded Apparel's international operations are conducted through numerous foreign subsidiaries, including many in Europe and South America. Household Products' operations are conducted by subsidiaries in over forty countries. The financial information about Sara Lee's foreign and domestic operations in Note 25, Geographic Area Information, to the Consolidated Financial Statements contained in the Company's 2005 Annual Report to Stockholders is incorporated herein by reference. Financial information about the impact on Sara Lee of foreign exchange rates appearing under the heading Financial Review of the Company's 2005 Annual Report to Stockholders is incorporated herein by reference.

## **Risk Factors**

This Annual Report on Form 10-K, including the information incorporated herein by reference, contains certain forward-looking statements including the anticipated costs and benefits of restructuring actions, Sara Lee's access to credit markets and the corporation's credit ratings, the planned extinguishment of debt, the funding of pension plans, potential payments under guarantees and amounts due under future contractual obligations and commitments. In addition, from time to time, in oral statements and written reports, the corporation discusses its expectations regarding the corporation's future performance by making forward-looking statements preceded by terms such as expects, projects, anticipates or believes. These forward-looking statements are based on currently available competitive, financial and economic data, as well as management's views and assumptions regarding future events, and are inherently uncertain. Readers should recognize that actual results may differ from those expressed or implied in the forward-looking statements. Among the factors that could cause Sara Lee's actual results to differ from such forward-looking statements are the risk factors described below.

*Sara Lee's potential inability to implement the Transformation plan, or to realize the anticipated benefits of the Transformation plan, could adversely affect our results of operations and financial condition.*

On February 10, 2005, Sara Lee announced a Transformation plan designed to improve performance and better position Sara Lee for long-term growth. There is no guarantee, however, that we will be able to implement the Transformation plan on terms and conditions that are favorable to us. For example, as part of the Transformation plan, we intend to sell our European Branded Apparel, European Meats, Direct Selling and U.S. retail coffee businesses, and to spin off our Branded Apparel Americas/Asia business into an independent, publicly traded company. There is no guarantee, however, that we will be able to complete these divestitures on terms and conditions that are favorable to us. The spin off requires that we obtain a favorable tax ruling, and other regulatory approvals, to effectuate this transaction and there is no guarantee that we will be able to obtain these rulings and approvals within the anticipated time frame.

Our Transformation plan is designed not only to change Sara Lee's business portfolio, but also to dramatically increase operating efficiency and generate significant cost savings by fiscal 2010. These plans include integrating our businesses into the new business structure and consolidating our North American and European headquarters in the Chicago area and in Utrecht. The projected cost savings from these plans are important to enable Sara Lee to make the needed marketing and R&D investments to achieve our business growth goals and to improve ongoing financial returns. If Sara Lee is unable to implement any of these elements of the Transformation plan, we may not reap the anticipated benefits of the plan. Any negative impact the Transformation plan has on our relationships with employees, major customers, vendors or our cost of funds, and any failure to generate the anticipated efficiencies and savings from the plan, also could adversely affect our results of operations or financial condition.

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*Sara Lee is subject to risks associated with our international operations, which could negatively affect our sales to customers in foreign countries as well as our operations and assets in such countries.*

In fiscal year 2005, we derived approximately 44% of our net sales from customers located outside of the United States. In addition, we have substantial assets located outside of the United States. As a result, Sara Lee is subject to numerous risks and uncertainties relating to international sales and operations, including:

difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex laws, treaties and regulations;

different regulatory structures and unexpected changes in regulatory environments;

political and economic instability, including the possibility of civil unrest;

nationalization of properties by foreign governments;

tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;

potentially negative consequences from changes in tax laws;

the imposition of tariffs, quotas, trade barriers, other trade protection measures and import or export licensing requirements;

increased costs, disruptions in shipping or reduced availability of freight transportation; and

the impact of currency exchange rate fluctuations between the U.S. dollar and foreign currencies, particularly the European euro, the British pound, the Australian dollar and the Brazilian real.

The occurrence of any of these events in the markets where Sara Lee operates or in other developing markets could jeopardize or limit Sara Lee's ability to transact business in those markets and could adversely affect our revenues and operating results.

*Our profitability may suffer as a result of competition in our markets.*

The brand-name consumer products industry is intensely competitive. In order to protect our existing market share or capture increased market share in this highly competitive retail environment, we may be required to increase expenditures for promotions and advertising and introduce and establish new products. Due to inherent risks in the marketplace associated with advertising and new product introductions, including uncertainties about trade and consumer acceptance, increased expenditures may not prove successful in maintaining or enhancing our market share and could result in lower sales and profits. In addition, we may incur increased credit and other business risks as a result of competing for

customers in a highly competitive retail environment.

Our consumer products also are subject to significant price competition. From time to time, we may need to reduce the prices for some of our products to respond to competitive and customer pressures and to maintain market share. Such pressures also may restrict our ability to increase prices in response to raw material and other cost increases. Any reduction in prices as a result of competitive pressures, or any failure to increase prices when raw material costs increase, would harm profit margins and, if our sales volumes fail to grow sufficiently to offset any reduction in margins, our results of operations will suffer.

*We may be required to establish additional inventory reserves in connection with our Branded Apparel business.*

Inventory in our Branded Apparel business is subject to higher levels of obsolescence and excess stock than other components of Sara Lee's business. This results from a more complex supply chain, a longer manufacturing process, the seasonal nature of certain inventory items and changes in fashion. As described under the heading "Financial Review" in the Company's 2005 Annual Report to Stockholders, we increased inventory

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reserves in the underwear business by \$29 million in fiscal 2005 to recognize slow moving and obsolete inventory. There are inherent uncertainties related to the recoverability of inventory, and it is possible that market factors and other conditions underlying the valuation of inventory may change in the future and result in further reserve requirements.

*As a result of the Transformation plan, we may be required to take additional write downs in connection with impairment of our intangible assets.*

Intangible assets and goodwill comprise a significant portion of our total assets. Intangible assets include trademarks, customer relationships, software and certain contractual relationships. 85% of all of Sara Lee's intangible assets have a finite life and are amortized, and 15% have an indefinite life and are not amortized. Intangible assets with a finite life are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Such events include adverse changes in the business climate, current period operating or cash flow losses, forecasted continuing losses or a current expectation that an asset group will be disposed of before the end of its useful life. An impairment review of goodwill and intangible assets not subject to amortization is conducted at least once a year and if events or changes in circumstances indicate that their carrying value may not be recoverable. As a result of the Transformation plan, we are considering the sale or disposition of many of our businesses as well as the disposal or abandonment of certain other intangible assets. These actions may require us to recognize increased levels of future intangible amortization, or incur charges to recognize the impairment of certain of these assets.

*Sara Lee may not be able to implement the capital structure strategic initiatives announced on August 4, 2005 or realize the anticipated benefits of these strategic initiatives.*

On August 4, 2005, Sara Lee announced three major capital structure initiatives that we intend to implement as we pursue the Transformation plan. In particular, we announced that we intend to (i) repurchase approximately \$2 billion of our common stock during the Transformation period, with \$1 billion being repurchased in fiscal 2006, (ii) maintain our annual dividend of \$0.79 per share through fiscal 2006, regardless of when the planned divestitures are completed, and (iii) use divestiture proceeds and cash from operations to reduce total debt by at least \$1.5 billion. These initiatives are designed to return value to shareholders, optimize our capital structure and help us maintain a strong credit profile as we pursue the Transformation plan. We believe that we will be able to generate sufficient cash necessary to implement each of these initiatives and maintain current investments in our businesses, but there is no guarantee that this will be the case. Furthermore, even if we are able to implement these capital structure initiatives, there is no guarantee that they will achieve their intended results. In particular, we cannot be certain that the initiatives will not result in a downgrade of our credit ratings or that committing cash to these initiatives will be viewed by analysts and investors as an appropriate use of our resources.

*Volatility in the equity markets or interest rates could substantially increase our pension costs.*

The projected benefit obligation and assets of Sara Lee's defined benefit pension plans as of the end of fiscal 2005 was \$5.4 billion and \$3.9 million, respectively. The difference between plan obligations and assets, or the funded status of the plans, is a significant factor in determining the net periodic benefit costs of our pension plans and the ongoing funding requirements of those plans. Changes in interest rates and the market value of plan assets can impact the funded status of these plans and cause volatility in the net periodic benefit cost and future funding requirements of these plans. In addition, our announced plans to dispose of certain businesses and the terms of those disposition transactions may impact future contributions to the benefit plans and the related net periodic benefit cost. A significant increase in our funding requirements could have a negative impact on our results of operations.

*The Transformation plan may increase Sara Lee's effective tax rate.*

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As a global business, Sara Lee's tax rate from period to period can be affected by many factors, including changes in tax legislation, our global mix of earnings, the tax characteristics of our income, acquisitions and

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dispositions, and the portion of the income of foreign subsidiaries that we expect to remit to the U.S. One component of our Transformation plan is the planned disposition of several significant businesses, which will impact future results in several ways. First, the tax expense or benefit directly associated with these dispositions will impact our net income and liquidity. Since the terms and conditions of future dispositions have not yet been determined, it is not possible to estimate the impact of such disposition transactions on Sara Lee's tax expense and liquidity. Secondly, when the spin off of the Branded Apparel Americas/Asia business is completed, the effective tax rate of Sara Lee's remaining business likely will increase. The Branded Apparel Americas/Asia business historically has had a lower effective tax rate than the remainder of the business and generates a significant amount of operating cash flow. The elimination of this cash flow may require us to remit a greater portion of the earnings of foreign subsidiaries to the U.S. than we have historically, which may result in higher levels of tax expense and cash taxes paid.

*Changes in our relationship with our major customers, or in the trade terms required by such customers, may reduce sales and profits.*

Because of the competitive environment facing retailers, many of our customers have increasingly sought to obtain pricing concessions or better trade terms. This trend has become more pronounced with increasing retailer consolidation. To the extent we provide concessions or better trade terms, our margins are reduced. Further, if we are unable to maintain terms that are acceptable to our major trade customers, such as Wal-Mart Stores Inc., our largest customer, or our customers determine that less inventory is necessary to service consumers, these customers could reduce purchases of our products and increase purchases of products from our competitors, which would harm our sales and profitability.

*Commodity price increases would increase operating costs and may reduce profits.*

We use many different commodities in our various businesses, including beef, pork, coffee, wheat, cotton, corn, corn syrup, soybean and corn oils, butter and sugar. Commodities are subject to price volatility caused by commodity market fluctuations, the quality and availability of supply, weather, currency fluctuations, trade agreements among producing and consuming nations, consumer demand and changes in governmental agricultural programs. Commodity price increases result in corresponding increases in our raw material costs. We do use commodity financial instruments to hedge commodity prices, but not at significant levels. We may be able to pass some or all of raw material cost increases to customers in the form of higher product prices; however higher product prices may also result in a reduction in unit volume. If we are not able to increase our product prices to significantly offset increased raw material costs, or if unit volume sales are significantly reduced, it could have a negative impact on our profitability.

*Various food safety issues may negatively impact the consumption of meat products by our customers and may lead to increased governmental regulation.*

Food safety issues have received increased media attention over the past few years. One prominent issue in the United States and Europe has been concern relating to mad cow disease. Any future outbreak of livestock disease in the United States may result in adverse publicity and a loss of customer confidence in the protein products affected by the particular disease. A reduction in consumption of such protein sources in the United States or Europe would have a negative impact on the profitability of our Meats business. Outbreaks of livestock disease may also result in import and export restrictions.

The food production industry is also subject to extensive government regulation. Our U.S. food processing facilities and food products are subject to frequent inspection by the United States Department of Agriculture (USDA), and our meat businesses in Europe and Mexico are regulated by local authorities in a similar fashion. Recently, the food safety practices and procedures in the meat processing industry have been subject to more intense scrutiny and oversight and future outbreaks of diseases among cattle, poultry or pigs could lead to further





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governmental regulation. We anticipate increased regulation by various governmental agencies concerning food safety. More stringent requirements could result in changes in industry practices that could increase our costs and reduce margins.

*Changes in our credit ratings may have a negative impact on our financing costs in future periods.*

Sara Lee has numerous credit facilities available which management considers sufficient to satisfy our operating requirements. Our current short-term credit rating allows us to participate in a commercial paper market that has a large number of potential investors and a high degree of liquidity. A downgrade in our credit ratings, particularly our short-term credit rating, would likely reduce the amount of commercial paper we could issue, raise our commercial paper borrowing costs, or both.

*Resolution of tax disputes may impact our earnings and cash flow.*

Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We establish accruals for certain tax contingencies when, despite the belief that our tax return positions are fully supported, we believe that certain positions will be challenged and that our positions may not be fully sustained. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. Our effective tax rate includes the impact of tax contingency accruals and changes to the accruals, including related interest and penalties, as considered appropriate by management. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to our effective tax rate in the year of resolution. Unfavorable resolution of any particular issue could increase the effective tax rate and may require the use of cash in the year of resolution.

*Environmental matters create potential liability risks.*

We must comply with various environmental laws and regulations in the jurisdictions in which we operate, including those relating to air emissions, water discharges, the handling and disposal of solid and hazardous wastes and the remediation of contamination associated with the use and disposal of hazardous substances. We have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with environmental laws and regulations and in providing physical security for our worldwide operations. We are currently involved in or have potential liability with respect to the remediation of past contamination in the operation of some of our presently and formerly owned and leased facilities. In addition, some of our present and former facilities have been or had been in operation for many years, and over that time, some of these facilities may have used substances or generated and disposed of wastes that are or may be considered hazardous. It is possible that those sites, as well as disposal sites owned by third parties to which we have sent waste, may in the future be identified and become the subject of remediation. It is possible that we could become subject to additional environmental liabilities in the future that could result in an adverse effect on our results of operations or financial condition.

*Failure to maximize or to successfully assert our intellectual property rights could impact our competitiveness.*

We rely on trademark, trade secret, patent and copyright laws to protect our intellectual property rights. We cannot be sure that these intellectual property rights will be maximized or that they can be successfully asserted. There is a risk that we will not be able to obtain and perfect our own, or, where appropriate, license intellectual property rights necessary to support new product introductions. We cannot be sure that these rights, if obtained, will not be invalidated, circumvented or challenged in the future. In addition, even if such rights are obtained in the United States, the

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laws of some of the other countries in which our products are or may be sold do not protect our intellectual property rights to the same extent as the laws of the United States. Our failure to perfect or successfully assert our intellectual property rights could make us less competitive and could have an adverse effect on our business, operating results and financial condition.

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*Failure of tobacco to remain a legal product in certain European nations would result in a loss of certain contingent sale proceeds.*

We sold our European cut tobacco business in fiscal 1999. Under the terms of that agreement, we will receive an annual cash payment of 95 million euros if tobacco continues to be a legal product in the Netherlands, Germany and Belgium through 2010. If tobacco ceases to be a legal product prior to that date in any or all of these countries, future cash payments associated with the sale agreement will be reduced or eliminated in their entirety.

**Item 2. Properties**

Sara Lee's corporate headquarters are located in leased facilities in Chicago, Illinois. In addition, Sara Lee operates more than 584 food processing and consumer product manufacturing plants, warehouses and distribution facilities that each contains more than 20,000 square feet in building area. Sara Lee or its subsidiaries own most of these facilities, and the majority of the leased facilities are subject to lease terms of less than 10 years. Management believes that Sara Lee's facilities are maintained in good condition and are generally suitable and of sufficient capacity to support Sara Lee's current business operations and that the loss of any single facility would not have a material adverse effect on the operations or financial results of Sara Lee or any of its lines of business.

The following table identifies the locations of Sara Lee facilities (owned or leased) containing more than 20,000 square feet in building area by line of business.

**Sara Lee Meats**

United States facilities (14 states)	approximately 5.6 million square feet
International facilities	approximately 6.8 million square feet
Belgium	Mexico
France	The Netherlands
Italy	Portugal

**Sara Lee Bakery**

United States facilities (27 states)	approximately 7.97 million square feet
International facilities	approximately 2.3 million square feet
Australia	Portugal
France	Spain

**Beverage**

United States facilities (16 states)	approximately 2.6 million square feet	
International facilities	approximately 4.5 million square feet	
Australia	France	Poland
Belgium	Germany	Spain
Brazil	Greece	Thailand
Czech Republic	Hungary	United Kingdom
Denmark	The Netherlands	

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...ve discretion, taking into account its evaluation of SNCC's corporate performance on a stand-alone basis and the performance of C's executive management team as a whole, applying the evaluative factors discussed in the preceding section, to establish Wilhelm's bonus for 2010 at a level equal to one hundred percent of his 2010 base salary. In this evaluation, key factors considered by the Compensation Committee in its performance evaluation were SNCC's favorable underwriting results and growth in premiums and assets available for investment.

...annual cash bonus for Mr. Burghart, who is employed in the operations of RSLIC, is established under the RSLIC annual management incentive compensation plan, which is the incentive compensation vehicle for all members of RSLIC management established annually by RSLIC's Compensation Committee to participate in such plan. Actions relating to Mr. Burghart's compensation under this plan are subject to the separate review and approval of the Compensation Committee. The criterion determining the level of bonus attainable under this plan for 2010 consisted of the attainment by RSLIC and its affiliated life insurance companies of an operating income target for the year of \$168.3 million. Contingent upon the attainment of this goal, Mr. Burghart had the opportunity to receive a bonus of up to 60% of his 2010 base salary, subject to a discretionary 10% upward or downward adjustment that applies uniformly to the annual bonuses of all plan participants and is based on a discretionary assessment of aspects of RSLIC's corporate performance for the year beyond the level of operating income achieved, such as steps taken during the year to build for future rate achievement and its teamwork with other members of the Company's corporate group. Under this plan, if the operating income target for a plan year is not attained, any bonuses for that year are payable solely on a discretionary basis. As with the operating income-related performance goals for Messrs. Rosenkranz and Sherman discussed above, this operating income target is a non-GAAP financial measure under which the after-tax effects of realized investment gains and losses, as applicable, extraordinary items and losses from discontinued operations are excluded from GAAP net income in order to focus on the performance of RSLIC's continuing insurance operations. In 2010, while RSLIC's insurance operations performed favorably for the year in light of challenging economic and competitive conditions, RSLIC did not attain the 2010 operating income goal set forth in such plan, due primarily to adverse claims experience in its long-term disability line, which the Company believes to have been reflective of general industry conditions. Based on its performance and taking into account the factors discussed above, the Compensation Committee approved, on a discretionary basis, to award to Mr. Burghart a bonus at a level equal to eighty percent of the amount that would have been earned had the operating income goal been achieved. The 2010 cash bonus for Mr. Coulter, who serves as General Counsel of the Company and of RSLIC, was determined on a discretionary basis by the Compensation Committee taking into account, as a threshold matter, the Company's overall operating performance for the year, including the elements of such performance discussed above, as well as its assessment of the extent and nature of his contributions toward such performance and its subjective evaluation of his performance of the responsibilities of his position.

## **Share-Based Compensation**

### *General Objectives and Overview*

As stated above, the Company believes that a large component of its officers' compensation should consist of share-based incentive compensation, which appreciates or depreciates in value in relation to the market price of our common stock. Accordingly, the Compensation Committee has in recent years made, and intends in the future to continue to make, annual and other grants of share-based awards to the named executive officers and other key employees in such amounts as the Committee believes will best fulfill the objectives of our compensation programs. As discussed below, the holder's ability to realize financial benefit from these awards typically requires the fulfillment of substantial vesting requirements that are performance-contingent in some cases and time-based in others. Accordingly, the Company believes that these awards provide substantial benefit to the Company in creating appropriate performance incentives and in facilitating the long-term retention of employees who add significant value.

Share-based awards to the named executive officers have taken the forms of options to purchase the Company's Class A or Class B Common Stock, as applicable (referred to below as "options"), deferred or restricted share units ("Share Units"), which entitle the recipient to receive a number of shares of Company Class A or Class B Common Stock, as applicable, equal to the number of such units upon completion of a specified deferral period, along with dividend equivalents during the period that such units are outstanding and restricted shares of Class A Common Stock. Such compensation is awarded under the Company's 2003 Employee Long-Term Incentive Share Award Plan (the "Share Plan") and, in the case of Mr. Rosenkranz, under the Company's Second Amended and Restated Long-Term Performance-Based Incentive Plan. Summary descriptions of these plans begin at page 19 below.

### *Options and Restricted Shares*

Options give the holder the right, generally for a period of ten years, to purchase a specified number of shares of Company stock at a fixed exercise price, which is the NYSE closing price of the Class A Common Stock on the date of grant. The options will provide

ncial benefit to the holder only to the extent that the price of our stock increases above the exercise price and the holder remains  
oyed during the vesting period, which is generally five years, thus providing a substantial incentive for the

employee to continue employment with the Company. Employees generally forfeit any options not vested at the time that their employment terminates. In addition, the options serve to align employees' interests with those of our stockholders by providing an incentive to make contributions that will assist in increasing the market price of our stock. The Company does not backdate options or exercise options retroactively. The Company did not take action to implement the employee option exchange program that was approved at the Company's 2009 Annual Meeting of Stockholders, in light of the significant improvement that subsequently occurred in the Company's stock price. Accordingly, such approval expired in May 2010.

Restricted shares of Class A Common Stock are issued and outstanding shares under which the holder has all of the rights of a stockholder, including the rights to vote the shares and receive dividends, except that they may not be sold, transferred, pledged or otherwise disposed of by the holder until they vest. Restricted shares whose vesting conditions are not satisfied are forfeited to the Company. Like options, restricted share awards serve to align employees' interests with those of our stockholders by providing an incentive to make contributions that will assist in increasing the market price of our stock.

For the named executive officers employed by our insurance subsidiaries, we have emphasized the use of share-based awards having a performance-contingent incentive structure. The vesting of these awards is contingent upon the attainment by RSLIC, in the case of Mr. Burghart, and SIG, in the case of Mr. Wilhelm, of financial performance goals for specified multi-year performance periods measured against the respective subsidiaries' cumulative pre-tax operating income (as defined in the respective option agreements) for these periods. Pre-tax operating income, in both cases, is a non-GAAP financial measure that applies various adjustments in order to focus on the performance of the subsidiaries' continuing insurance operations. In both cases, the awards vest if the specified goal is met; otherwise, a reduced portion of such awards vest depending upon where the performance achieved falls within a specified range. If the specified minimum performance targets for the applicable performance periods are not satisfied, the awards are forfeited in their entirety. Thus, these awards provide substantial incentives for performance that will serve the interests of the Company and its stockholders.

A performance-contingent incentive option program of this type was adopted by the Compensation Committee in 2008 for the members of SNCC executive management, including Mr. Wilhelm, for the 2008-2012 performance period, which contains three and a half year performance periods, both of which began with the 2008 fiscal year. Based on the full achievement of the performance goal for the three year performance period under this program, sixty percent, or 135,000, of the 225,000 options granted to Mr. Wilhelm under this program became exercisable in 2011. The remainder of such options will become exercisable only to the extent that the financial performance goal for the five year period under this program is satisfied; otherwise, such options will be forfeited. A similarly structured performance-contingent incentive option program was adopted by the Compensation Committee in 2009 for Mr. Burghart and the other members of RSLIC executive management for the 2009-2014 performance period, containing four and six year performance periods, both of which began with the 2009 fiscal year. In December 2010, the Compensation Committee approved modifications to the program which eliminated its six year performance period and reduced the level of the financial performance goal for the four year performance period. In conjunction with these modifications, Mr. Burghart surrendered 80,000 of the 200,000 options granted to him under the program and exchanged 60,000 of the remaining options, which were in-the-money, for 25,854 restricted shares of Class A Common Stock on a value-for-value basis taking into account the fair value of the restricted shares and the fair value of the exchanged options according to the Black-Scholes option pricing model. The remaining options and the restricted shares will vest to the extent that the financial performance goal for the four year performance period is satisfied; otherwise, they will be forfeited. The Compensation Committee determined that these modifications were appropriate in order to permit such program to continue to serve as an effective incentive for its participants, including Mr. Burghart, in light of the effects of the economic and interest rate environment on RSLIC's ability to achieve the program's financial goals and to provide for a balance between options and restricted shares.

#### *Units*

Share Units give the holder the right to receive one share of Company Class A or Class B Common Stock for each unit held and to receive dividend equivalents while the units are outstanding. As in the case of the options that we grant, Share Units are subject to substantial vesting requirements that provide the Company with significant benefits from the standpoint of employee retention. All of the vesting requirements have been time-based to date. In addition, under the terms of the Share Units granted to Messrs. Rosenkranz and Mr. Burghart, they are not entitled to receive the shares of Company common stock underlying such Share Units until after the termination of their employment, even after the applicable vesting period has been satisfied, thus further aligning their interests with those of the Company's stockholders on a long-term basis, particularly in light of the downside risk to the holder of a decrease in their value to the extent that the price of our stock declines during the holding period. These terms also serve to maximize the tax deductibility by the



any of the compensation to these officers associated with the Share Units.

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*Grants and Granting Practices*

In the cases of Messrs. Rosenkranz, Sherman and Coulter, share-based awards have been made by the Compensation Committee over a discretionary basis, primarily in connection with the annual performance evaluations discussed above. At the February 2011 meeting of the Compensation Committee, 48,138, 38,510 and 10,430 Share Units were awarded to Messrs. Rosenkranz, Sherman and Coulter, respectively, and Messrs. Rosenkranz, and Sherman received 144,415 and 115,532 options, respectively, all in respect of their performance during 2010, such awards having been set, in Mr. Sherman's case, at levels equal to 80% of the corresponding awards to Messrs. Rosenkranz, consistent with the level at which Mr. Sherman's cash bonus for 2010 was established. See "Cash Compensation" above. The options granted to Messrs. Rosenkranz and Sherman vest in five equal annual installments beginning one year after the grant date. The Share Unit awards vest in three equal annual installments beginning one year after the grant date, in the case of Mr. Rosenkranz, and in three equal installments beginning on the third anniversary of the grant date, in the cases of Messrs. Sherman and Coulter. The Company's annual grants of share-based awards to employees are generally made at the same time each year. These grants have been made at the regular Compensation Committee meeting held in February at which, as discussed above, the named executive officers' performance evaluations are conducted. These meetings are scheduled significantly in advance, without regard to any information or announcements regarding future Company financial performance or announcements. Further, awards made at these meetings are made effective on the third day of market trading of the Company's stock following the public announcement of the Company's financial results for the preceding year, which normally occurs shortly following the Compensation Committee's February meeting. This practice ensures that the terms of these awards, such as option exercise prices, are reflective of the impact of such announcements on the Company's stock price. All grants of share-based awards are made directly by formal action of the Compensation Committee, which has not delegated any granting authority to management.

**Employment and Severance Agreements**

The named executive officers, except as described below in the "Potential Payments on Termination or Change in Control" section beginning at page 25, do not have employment, severance or change-of-control agreements. Accordingly, with the exception of Mr. Wilhelm, the named executive officers serve on an at-will basis, which would enable the Company to terminate their employment at any time to determine the terms of any severance arrangement at such time. In addition, the terms of the Company's share-based awards, as discussed above, subject such awards to forfeiture if specified vesting requirements are not satisfied prior to a named executive officer's termination from the Company.

**Considerations**

Section 162(m) of the Code limits the deductibility of certain compensation for the Chief Executive Officer, as well as the other named executive officers other than Mr. Burghart, in excess of \$1 million per year unless certain specified conditions are met. The Compensation Committee intends to establish and maintain executive compensation levels and programs that will serve the purposes described in this Compensation Discussion and Analysis. The Compensation Committee has structured the Company's current executive compensation arrangements in order to avoid limitations on deductibility, and will continue to do so in the future where this can be achieved consistent with achieving these purposes.

**SUMMARY COMPENSATION TABLE**

Following table sets forth, with the exceptions described in the following sentence, the compensation paid by the Company and its subsidiaries to the Chief Executive Officer, the Senior Vice President and Treasurer (Chief Financial Officer), and the other three most highly compensated executive officers of the Company and its subsidiaries for the year ended December 31, 2010 and the compensation paid by the Company to such individuals for the years ended December 31, 2009 and 2008.

Name and Principal Position	Year	Salary (\$) (2)	Bonus (\$) (3)	Stock Awards(\$) (4)	Option Awards (\$) (5)	Non-Equity Incentive Plan Compensation (\$) (3)	Change in Pension Value and Nonqualified Deferred	All Other Compensation (\$) (7) (8)	Total \$
							Earnings (\$) (6)		
Rosenkranz, Chief Executive Officer of the Company	2010	\$865,000	\$	\$1,250,000	\$1,393,001	\$1,750,000	\$2,711,769	\$110,901	\$8,080,671
	2009	832,750				1,500,000		60,375	2,393,125
	2008	832,750		1,250,000	2,765,953		2,401,503	49,174	7,299,380
W. Burghart, Vice President Treasurer of the Company and of RSLIC	2010	270,000				129,600	83,297	22,405	505,302
	2009	270,000			1,962,000 (9)	162,000	38,847	18,312	2,451,159
	2008	270,000				129,600	178,819	21,412	599,831
A. Sherman, President and Chief Operating Officer of the Company	2010	865,000		875,000	975,098	1,400,000	16,197	25,828	4,157,123
	2009	832,750				1,050,000	33,390	4,900	1,921,040
	2008	832,750		875,000	511,666		51,392	4,628	2,275,436
M. Wilhelm, Senior Executive Officer of SNCC (1)	2010	658,133	27,438			658,523		15,565	1,359,659
J. Coulter, Senior Vice President General Counsel and Secretary of the Company	2010	510,000		250,000		420,000	49,663	18,856	1,248,519

Messrs. Wilhelm and Coulter were not named executive officers in 2008 or 2009.

Amounts include amounts deferred by the named executive officers, where applicable, under RSLIC's Retirement Savings (401(k)) Plan and Nonqualified Deferred Compensation Plan.

Bonus amounts paid with respect to the 2010 plan year under the Company's Annual Incentive Compensation Plan and the RSLIC Annual Management Incentive Compensation Plan are reported in the column Non-Equity Incentive Plan Compensation.

Amounts represent the aggregate grant date fair values, as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ( ASC 718 ), of the Share Units awarded to the respective named executive officers during the applicable year indicated in the table. Each such award was made in respect of the officer's performance during the prior year. Effective on February 17, 2010, 58,851, 41,196 and 11,770 Share Units were awarded to Messrs. Rosenkranz, Sherman and Coulter, respectively. Effective on February 15, 2008, 42,896 and 30,027 Share Units were awarded to Messrs. Rosenkranz and Sherman, respectively. The grant date fair value of a Share Unit is based on the market closing price per share of the Company's Class A Common Stock on such date. These amounts do not necessarily reflect the values that will ultimately be realized with respect to these awards. Effective on December 29, 2010, Mr. Burghart received a grant of 25,854 performance-contingent incentive restricted shares of Class A Common Stock in exchange for 60,000 performance-contingent incentive options to purchase Class A Common Stock, which were in-the-money. See Share-Based Compensation Options and Restricted Shares above. Because the fair values of the restricted shares and the options were equal, no incremental fair value was associated with such grant.

Amounts represent the aggregate grant date fair values, as computed in accordance with ASC 718, of the options granted to the respective named executive officers during the applicable year indicated in the table. See Note L to the Consolidated Financial Statements contained in the Company's 2010 Annual Report on Form 10-K for the assumptions made in determining these fair values. These amounts do not necessarily reflect the values that will ultimately be realized with respect to these awards.

Amounts consist of estimates of the change in actuarial present value of the named executive officer's accrued benefit under the Company's retirement plans in 2010, 2009 and 2008. The amount shown for Mr. Rosenkranz for 2009 does not reflect a decrease in such value in the amount of \$766,616. The key assumptions underlying these estimates are described in footnote 2 to the Pension Benefits Table on page 23. The amounts indicated for 2010 reflect a change in the discount rate utilized to 5.60% from the 6.00% rate utilized for 2009, and, in Mr. Rosenkranz's case, an increase in the actuarial equivalent benefit resulting from the deferral of his retirement beyond the plan's normal retirement date. No amount is payable from the plans before a participant attains age 55 (except in the case of a disability retirement). These amounts do not necessarily reflect the benefits that will ultimately be realized with respect to these plans. No above-market earnings, for purposes of SEC rules, are paid under any Company non-qualified deferred compensation program. As of December 31, 2010, Mr. Sherman had completed less than 5 years of service and therefore his accumulated benefits had not yet vested.

The amounts indicated in the All Other Compensation column for 2010 relate to the following perquisites and other benefits:

Mr. Rosenkranz: services of a personal assistant (\$69,600); personal use of a Company-provided car; Company contributions to defined contribution plan and Company-paid group term life insurance premiums. In addition, the Company permitted the use of office space by personnel associated with Intelligence Squared U.S., a debate series sponsored by The Rosenkranz Foundation; however, no aggregate incremental cost to the Company was associated with such use.

Mr. Sherman: personal use of Company-provided car; Company contributions to defined contribution plan and Company-paid group term life insurance coverage.

Mr. Burghart: personal use of a Company-provided car; Company contributions to defined contribution plan; Company-paid group term life insurance premiums and executive medical reimbursements.

Mr. Coulter: Company contributions to defined contribution plan; Company-paid group term life insurance premiums; executive medical reimbursements and Company-provided parking space.

Mr. Wilhelm: Company contributions to defined contribution plan and Company-paid group term life insurance premiums.

The Company and its subsidiaries paid certain amounts in 2010, 2009 and 2008 under related party transactions to entities in which Mr. Rosenkranz had financial interests, portions of which were in turn earned by Mr. Rosenkranz in addition to the amounts set forth above. See *Certain Relationships and Related Transactions* beginning at page 30 below.

Amounts reflects the aggregate grant date fair value, as computed in accordance with ASC 718, of the performance-contingent incentive options granted to Mr. Burghart.

Following table provides information on options and Share Units granted and cash incentive plan awards, as applicable, to the named executive officers during the year ended December 31, 2010:

**Grants of Plan-Based Awards in 2010**

	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Possible Payouts Under Equity Incentive Plan Awards			Number of Shares of Stock or Units	All Other Awards	Exercise or Base	Price of Option Awards	Grant Date Fair Value of Stock and Option Awards (2)
		Threshold	Target	Maximum	Threshold	Target	Maximum					
		Amount	Amount	Amount	Amount	Amount	Amount	Units	Options	Share		
		\$	\$	\$	\$	\$	\$	#	#	(\$/sh)		\$
Mr. Rosenkranz	02/17/2010			\$3,027,500								
	02/17/2010							58,851				1,250,000
	02/17/2010								176,553	21.24		1,393,001
Mr. W. Burghart	12/29/2010	145,800	162,000	178,200								
	12/29/2010							25,854				
Mr. A. Sherman	02/17/2010			2,119,250								
	02/17/2010							41,195				875,000
	02/17/2010								123,588	21.24		975,098
Mr. A. Wilhelm	02/17/2010			1,645,333								
Mr. W. Coulter	02/17/2010							11,770				250,000

The amounts indicated in the Maximum Amount column reflect the maximum possible 2010 cash incentive plan awards for the named executive officers, where applicable. The actual 2010 awards for such officers under such plans are indicated in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. See Compensation Discussion and Analysis Cash Compensation above.

The amounts indicated in this column represent the aggregate grant date fair value, as computed in accordance with ASC 718, of the indicated awards to Messrs. Rosenkranz, Sherman and Coulter. See Note L to the Consolidated Financial Statements contained in the Company's 2010 Annual Report on Form 10-K for the assumptions made in determining the ASC 718 values of options. The ASC 718 grant date fair values of the Share Units are determined by reference to the grant date fair value of the underlying shares. In Mr. Burghart's case, the grant of restricted shares was made in exchange for options having an equivalent fair value; thus, no incremental fair value was associated with this grant. See note 4 to the Summary Compensation Table.

ary descriptions of the Company's cash and share-based employee incentive compensation plans follow:

**Annual Incentive Compensation Plan**

the Company's Annual Incentive Compensation Plan (the "Annual Incentive Plan"), its executive officers may earn annual bonus compensation contingent upon the attainment of certain pre-established performance goals adopted by the Compensation Committee in accordance with the plan's terms. The Compensation Committee has the ability to exercise negative discretion to reduce the amount that would otherwise be payable under an award by reason of the applicable performance goal or goals having been achieved. We intend that compensation payable under the Annual Incentive Plan will constitute "qualified performance-based compensation" under Section 162(m) of the Code, and, consequently, should not be subject to its \$1 million limit on deductibility. Messrs. Rosenkranz, Sherman and Silverman were the participants in the Annual Incentive Plan for 2010. See "Compensation Discussion and Analysis - Cash Compensation".

**Long-Term Incentive Compensation Plan**

Second Amended and Restated Long-Term Performance-Based Incentive Plan (the "Long-Term Incentive Plan") for Robert Rosenkranz, the Chairman and Chief Executive Officer of the Company, is intended to provide Mr. Rosenkranz with a compensation arrangement that rewards him for his contributions to the performance of the Company and enhancement of the interests of the Company's stockholders. The Compensation Committee administers the Long-Term Incentive Plan and has the authority to determine the number of shares subject to any award, to grant awards annually, or at such other times as it deems appropriate, in accordance with the plan and to interpret the plan.

At the end of each fiscal year of the Company for which the Long-Term Incentive Plan is in effect, the Compensation Committee determines whether and to what extent to grant an award for such year (including the number of shares subject to any award it determines to grant), and the composition of such award as between Class B Common Stock Share Units and Class B Common Stock Shares, based on such criteria relating to Mr. Rosenkranz's performance, the Company's performance, the Company's stock performance and such other factors for or relating to such year as it, in its discretion, deems relevant or, if applicable, the extent to which Mr. Rosenkranz is entitled to an award for such year based on the satisfaction of the performance criteria previously established by the Compensation Committee in its sole discretion for such year.

The exercise price under options granted under the Long-Term Incentive Plan is determined by the Compensation Committee, but may not be less than the closing price on the NYSE of the Company's Class A Common Stock on the date of grant, and the term of the options is ten years from the date of grant. Options become exercisable thirty days after the date of grant or such other time or times as determined by the Compensation Committee with respect to a particular award of such options. The Compensation Committee has generally provided for a ratable five-year vesting period in connection with such option grants. Mr. Rosenkranz is entitled to receive awards of Class B Common Stock in respect of Share Units awarded under the Long-Term Incentive Plan in connection with various specified events of termination of his employment, subject to the satisfaction of the supplemental vesting requirements imposed by the Compensation Committee in connection with the granting of such awards, which have generally been time-based. The Long-Term Incentive Plan also provides for payments to Mr. Rosenkranz in respect of any golden parachute excise tax imposed with respect to awards granted under the plan. See "Potential Payments on Termination or Change in Control", beginning at page 25 below.

The Long-Term Incentive Plan will terminate on December 31, 2013.

**Employee Stock Option Plans**

**Employee Long-Term Incentive and Share Award Plan**

Under the Share Plan, a total of 9,750,000 shares of Class A Common Stock are reserved for issuance upon the exercise of options, restricted shares, restricted share units (representing the right to receive shares of Class A Common Stock or cash, as applicable, at the end of the specified deferral period), and other share-based awards granted to employees and other participants thereunder.

As of March 31, 2011, performance-contingent incentive options relating to 4,695,000 shares of Class A Common Stock and options with time-vesting provisions relating to 1,857,092 shares of Class A Common Stock have been granted under the Share Plan, net of awards forfeited or surrendered. 574,272 Class A Common Stock Share Units have been granted under the Share Plan. As of March 31, 2011, options for 514,162 shares of Class A Common Stock have been exercised. These exercises reduced the total number of outstanding Class A Common Stock options to 6,037,930, of which 4,241,356 options were vested as of March

2011. Options currently outstanding under the Share Plan expire between (2013 and 2020). Options granted under the Share Plan have a maximum term of ten years and become exercisable at such times and in such amounts as are determined by the Compensation Committee at the time of grant. The exercise price under such options is the fair market value of the Class A Common Stock on the date of the grant, which, under the plan, is equal to the closing price per share of the Class A Common Stock, as reported on the NYSE on such date. The Share Units that have been granted to date under the Share Plan are subject to time-vesting provisions of various terms and conditions.

*Second Amended and Restated Employee Stock Option Plan*

The Second Amended and Restated Employee Stock Option Plan (the "Employee Option Plan") was originally adopted in 1987, and was amended and restated in 1994 and in 1997 and further amended in 2001. The Employee Option Plan's term expired on May 13, 2007 and no further grants will be made thereunder. The Employee Option Plan provided for a total of 7,650,000 shares of Class A Common Stock to be issued upon exercise of options granted thereunder, of which 7,503,668 options were granted, net of option forfeitures and cancellations. As of March 31, 2011, 6,790,588 of such options have been exercised. These exercises reduced the total number of exercisable Class A Common Stock options outstanding to 731,080, of which 677,030 options were vested as of March 31, 2011. Such outstanding options expire between 2011 and 2017. Options granted under the Employee Option Plan have a maximum term of ten years and become exercisable at such times and in such amounts as are determined by the Compensation Committee at the time of grant. The price per share upon the exercise of an option is 100% of the closing price per share of the Class A Common Stock, as reported on the NYSE for the option grant date.

The following table provides information concerning outstanding unexercised options, Share Units that have not vested, and equity incentive plan awards for each named executive officer as of the end of the most recently completed fiscal year. Each outstanding award is represented by a separate row, which indicates the number of securities underlying the award.



**Outstanding Equity Awards at 2010 Fiscal Year End**

	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Exercise Price (\$)	Equity Incentive Plan Awards: Expiration Date	Number of Shares or Units of Stock that Have not Vested (#)	Value of Shares or Units of Stock that Have not Vested (\$)	Market Payout of Value of Unearned Shares, Units or Other Rights that have not Vested (\$)	Equity Incentive Plan Awards: Market Payout of Value of Unearned Shares, Units or Other Rights that have not Vested (\$)
Frank Kranz	225,056	150,038 (1)		\$ 40.1800	08/23/2017				
	51,475	77,214 (1)		29.1400	02/15/2018				
	200,000	300,000 (1)		29.8400	08/12/2018				
		176,553 (1)		21.2400	02/17/2020				
						14,298 (2)	\$ 412,354		
						58,851 (3)	1,697,263		
Thomas W. Hart	225,000			\$ 27.8733	04/22/2014				
	75,000			31.1000	12/28/2015				
			60,000 (4)	24.9100	08/05/2019				
						25,854 (5)	\$ 745,629		
David A. Man	6,420			\$ 17.5245	08/14/2012				
	7,668			19.5600	05/29/2013				
	5,696			26.3333	05/06/2014				

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	4,038		27.8533	05/25/2015		
	120,000	30,000 (6)	36.0533	04/19/2016		
	15,200	3,800 (6)	34.6200	06/08/2016		
	30,859	20,573 (6)	40.8300	02/16/2017		
	36,032	54,050 (6)	29.1400	02/15/2018		
		123,588 (6)	21.2400	02/11/2020		
					11,429 (7)	\$ 329,612
					30,027 (8)	865,979
					41,195 (9)	1,188,064
A. elm		225,000 (12)	\$ 29.1400	02/15/2018		
W. er	22,500		\$ 25.8667	02/14/2014		
	7,500		29.4333	02/09/2015		
	12,000	3,000 (10)	31.3533	02/08/2016		
	6,000	4,000 (10)	40.8300	02/16/2017		
	34,000	51,000 (10)	29.1400	02/15/2018		
					2,392 (11)	\$ 68,985
					4,490 (7)	129,492
					9,437 (8)	272,163
					11,770 (9)	339,447

The unexercisable options expiring on 08/23/2017 were granted to Mr. Rosenkranz on 08/23/2007 and will vest in equal installments on 08/23/2011 and 08/23/2012. The unexercisable options expiring on 02/15/2018 were granted to Mr. Rosenkranz on 02/15/2008 and will vest in equal installments on 02/06/2011, 02/06/2012 and 02/06/2013. The unexercisable options expiring on 08/12/2018 were granted to Mr. Rosenkranz on 08/12/2008 and will vest in equal installments on 08/12/2011, 08/12/2012 and 08/12/2013. The unexercisable options expiring on 02/17/2020 were granted to Mr. Rosenkranz on 02/17/2010 and will vest in equal installments on 02/11/2011, 02/11/2012, 02/11/2013, 02/11/2014 and 02/11/2015.

Class B Common Stock Share Units granted on 02/15/2008, subject to the requirement that a retirement that would otherwise entitle Mr. Rosenkranz to receive the underlying shares must occur on or after 02/06/2011. This requirement is eliminated in three equal installments, beginning on the first anniversary of the grant date.

Class B Common Stock Share Units granted on 02/17/2010, subject to the requirement that a retirement that would otherwise entitle Mr. Rosenkranz to receive the underlying shares must occur on or after 02/11/2013. This requirement will be eliminated in three equal installments, beginning on the first anniversary of the grant date.

Class A Common Stock Share options granted on 08/05/2009 will become exercisable only to the extent that a specified cumulative financial performance target for the 2009-2012 period is satisfied.

Restricted shares of Class A Common Stock granted on 12/29/2010 in exchange for 60,000 options to purchase Class A Common Stock. See note 4 to the Summary Compensation Table. The restrictions on such shares will lapse only to the extent that a specified cumulative financial performance target for the 2009-2012 period is satisfied.

The unexercisable options expiring on 04/19/2016 were granted to Mr. Sherman on 04/19/2006 and will vest on 04/19/2011. The unexercisable options expiring on 06/08/2016 were granted to Mr. Sherman on 06/08/2006 and will vest on 06/08/2011. The unexercisable options expiring on

02/16/2017 were granted to Mr. Sherman on 02/16/2007 and will vest in equal installments on 02/07/2011 and 02/07/2012. The unexercisable options expiring on 02/15/2018 were granted to Mr. Sherman on 02/15/2008 and will vest in equal installments on 02/06/2011, 02/06/2012 and 02/06/2013. The unexercisable options expiring on 02/11/2020 were granted to Mr. Sherman on 02/17/2010 and will vest in equal installments on 02/11/2011, 02/11/2012, 02/11/2013, 02/11/2014 and 02/11/2015.

Class A Common Stock Share Units granted on 02/16/2007 will vest in equal annual installments on 2/7/2011 and 2/7/2012.

Class A Common Stock Share Units granted on 02/15/2008 vest in three equal annual installments beginning on 02/06/2011.

Class A Common Stock Share Units granted on 2/17/2010 vest in three equal annual installments beginning on 02/11/2013.

The unexercisable options expiring on 02/08/2016 were granted to Mr. Coulter on 02/08/2006 and will vest on 02/08/2011. The unexercisable options expiring on 02/16/2017 were granted to Mr. Coulter on 02/16/2007 and will vest in equal installments on 02/07/2011 and 02/07/2012. The unexercisable options expiring on 02/15/2018 were granted to Mr. Coulter on 02/15/2008 and will vest in a single installment on 02/06/2017.

The unexercisable Class A Common Stock Share Units granted on 02/08/2006 will vest on 02/08/2011.

Class A Common Stock Share options granted on 02/21/2008, of which 135,000 options became exercisable on 03/09/2011 based upon the satisfaction of a specified cumulative financial performance target for the 2008-2010 period and 90,000 of which will become exercisable only to the extent that a specified financial performance target for the 2008-2012 period is satisfied. See Compensation Discussion and Analysis Share-Based Compensation Options and Restricted Shares above.

Table below provides information relating to the number of shares of Common Stock acquired by the named executive officers during 2010 upon the exercise of options and the number of such officers' Share Units that vested during such year.

**Option Exercises and Stock Vested in 2010**

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Mr. Rosenkranz		\$	(1)	\$ (1)
Thomas W. Burghart	22,500	258,050		
Richard A. Sherman			(2)	(2)
Thomas A. Wilhelm				
William W. Coulter			4,637	96,635

During 2010, the vesting requirements with respect to 24,492 and 14,299 of the Class B Common Stock Share Units granted to Mr. Rosenkranz on 02/16/2007 and 2/15/2008, respectively, were satisfied. However, under these units' terms, the underlying shares of Class B Common Stock, which, based on the closing price of the Company's Class A Common Stock on the respective vesting dates, had aggregate values of \$478,329 and \$279,259, respectively, will not be received by him until after the termination of his employment. See Compensation Discussion and Analysis Share-Based Compensation Share Units above. The aggregate value of these underlying shares, as of year-end 2010, is included in the amount shown for Mr. Rosenkranz in the Aggregate Balance column of the table contained in the Nonqualified Deferred Compensation section below.

During 2010, the vesting requirements with respect to 5,715 of the Class A Common Stock Restricted Share Units granted to Mr. Sherman on 02/16/2007 were satisfied. However, under these units' terms, the underlying shares, which, based on the closing price of the Company's Class A Common Stock on the respective vesting date, had an aggregate value of \$111,614, will not be received by him until after the termination of his employment. See Compensation Discussion and Analysis Share-Based Compensation Share Units above. The aggregate value of these underlying shares, as of year-end 2010, is included in the amount shown for Mr. Sherman in the Aggregate Balance column of the table contained in the Nonqualified Deferred Compensation section below.

**Equity Compensation Plan Information**

Following table summarizes the number of shares of Class A Common Stock and Class B Common Stock issuable under the Company's equity compensation plans as of December 31, 2010.

	(a) Number of Securities To be Issued Upon Exercise of Outstanding Options	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders:			
Class A Common Stock	7,082,909	\$ 26.48	5,104,739 (1)
Class B Common Stock	1,180,336	31.76	3,579,407 (2)
	8,263,245	27.24	8,684,146
Equity compensation plans not approved by stockholders	None		None

Of these shares, 668,309 shares of Class A Common Stock were available for purchases pursuant to the Company's 2010 Employee Stock Purchase Plan. These shares may be purchased by employees at 85% of the market value under the terms and conditions set forth in the plan.

Under the Long-Term Incentive Plan, a maximum annual award may be granted of up to 357,723 Stock Units, plus the Carryover Award Amount, as then in effect, per year over the ten-year term ending on December 31, 2013. A Stock Unit consists of Class B Common Stock Share Units, each of which individual units represents one Stock Unit, and options to purchase shares of Class B Common Stock, each of which individual options represents one-third of one Stock Unit. The Carryover Award Amount consists of 715,446 Class B Common Stock Share Units and 2,146,329 Class B Common Stock options.

**Retirement Plan Benefits**

Table below shows the present value of the accumulated benefits payable to the named executive officers under the RSLIC Pension Plan (the "Pension Plan"), the RSLIC Supplemental Executive Retirement Plan (the "SERP") and the Delphi Capital Management, Inc. Pension Plan for Robert Rosenkranz (the "DCM Pension Plan") utilizing assumptions consistent with those used for purposes of the Company's financial statements as of December 31, 2010. Descriptions of the terms of these plans follow.

**Pension Benefits  
as of Fiscal Year End  
December 31, 2010**

Plan	Number of Years Credited Service (#) (1)	Present Value of Accumulated Benefit (\$) (2)	Payments During Last Fiscal Year (\$)

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t Rosenkranz	Pension Plan	22	\$ 688,277	\$
	DCM Pension Plan	32	14,478,989	
as W. Burghart	Pension Plan	30	423,887	
	SERP	30	211,192	
d A. Sherman	Pension Plan	4	96,784(3)	
	SERP	4	54,576(3)	
A. Wilhelm (4)				
W. Coulter	Pension Plan	19	215,903	
	SERP	19	129,444	

The number of years of credited service became fixed as of December 31, 2009. Prior to the benefits under these plans being frozen in 2009, as discussed below, one year of credited service had been provided for every year of employment in which 1,000 hours were completed. The years of Mr. Rosenkranz's credited service, for purposes of the DCM Pension Plan, include ten years of service provided to Rosenkranz & Company, L.P. prior to the formation of the Company.

Estimated actuarial present values determined using the same assumptions and methods used in determining expenses in the Company's 2010 financial statements, including, among others, a discount rate of 5.60%, the use of the RP-2000 Mortality Table projected to 2015, the election of a straight life annuity and the commencement of benefits at age 65. \$5,537,044 of the present value amount indicated for Mr. Rosenkranz with respect to the DCM Pension Plan results from the additional years of credited service described in footnote 1 to this table.

As of December 31, 2010, Mr. Sherman had completed less than 5 years of service and therefore the accumulated benefits indicated for him had not yet vested.

Mr. Wilhelm, as an employee of SNCC, does not participate in the referenced plans.

**Pension Plan**

The Pension Plan is a noncontributory, tax-qualified defined benefit pension plan that provides retirement and, in certain instances, death benefits to employees of RSLIC, FRSLIC and DCM, including the named executive officers employed by such companies. Pursuant to an amendment, under action taken in 2009, the participants' benefits under such plan were frozen at the amounts accrued as of December 31, 2009. No additional benefits will accrue under the Pension Plan after such date for any of the plan participants, including such named executive officers.

*Formula.* The annual benefit under the Pension Plan at an employee's normal retirement age of 65 is determined for current employees by adding (i) the employee's years of service through December 31, 2009 up to 35 years multiplied by the sum of (a) 0.85% of the employee's average compensation (which, for such purpose, consists primarily of the employee's taxable income as reported on Form 990 with certain exclusions) for the five consecutive calendar years prior to 2010 for which such average would be the highest Average Compensation ) up to the Social Security covered compensation level and (b) 2% of the employee's Average Compensation in excess of the Social Security covered compensation level, plus (ii) 1% of the employee's Average Compensation multiplied by his years of service through December 31, 2009 in excess of 35.

*Vesting.* Benefits vest after five years of service with RSLIC, FRSLIC and/or DCM.

*Normal Retirement Age.* A participant becomes eligible to receive benefits at the normal retirement age of 65. Early retirement at the attainment of age 55 is available to a participant with at least ten years of service. If early retirement is elected, benefits are reduced by 6.67% for each year of the first five years, and 3.3% for each of the next five years, by which the retirement commencement date precedes the normal retirement age of 65. If retirement is deferred beyond the normal retirement age of 65, as is the case for Mr. Rosenkranz, benefits are reduced to reflect the actuarial equivalent value thereof.

*Forms of Benefit.* Employees may elect to receive pension benefits under a single life annuity; otherwise, in the case of married employees, benefits will be paid in the form of a 50% joint and survivor benefit. Optional forms of payment also include an actuarially reduced 100% contingent annuity and a life annuity with 10 years certain. The Pension Plan also provides survivor benefits to the surviving spouse of an employee who dies with a vested benefit.

The SERP provides certain employees of RSLIC, FRSLIC and DCM, including the named executive officers employed by such companies other than Mr. Rosenkranz, with retirement income supplemental to that furnished under the Pension Plan by increasing the amount of compensation includible for purposes of determining pension benefits above the amount permitted under the Pension Plan to the Code limit discussed in the preceding section. As a result of various amendments made to the SERP in 2009 corresponding to the amendment made concurrently to the Pension Plan which, among other things, froze the participants' benefits under the SERP at the amounts accrued as of December 31, 2009, no additional benefits will accrue under the SERP after such date for any of the plan participants, including the named executive officers.

The SERP is not qualified under the Code and is unfunded. Retirement benefits under the SERP are calculated in substantially the same manner as under the Pension Plan, for the aforementioned increase in that the maximum compensation includible under the SERP. This limit is increased annually by the Social Security Cost of Living Adjustment. The annual benefit payable under the SERP is reduced to the annual benefit payable under the Pension Plan. The other terms and conditions of the SERP are substantially similar to those of the Pension Plan.

**DCM Pension Plan**

The DCM Pension Plan is a nonqualified defined benefit pension plan that provides Robert Rosenkranz with retirement benefits supplemental to those furnished under the Pension Plan. Concurrently with the amendments made to the Pension Plan and the SERP in December 2009, as described above, an amendment was made to the DCM Pension Plan to freeze Mr. Rosenkranz's benefit under such plan at the amount accrued as of December 31, 2009. Accordingly, no additional benefits will accrue to him under such plan after such date.

The annual benefit under the DCM Pension Plan at age 65 is determined by adding (i) Mr. Rosenkranz's years of service (which, for such purpose, include his years of service with Rosenkranz & Company, L.P. prior to the formation of the Company) through December 31, 2010 up to 35 years multiplied by the sum of (a) 0.85% of his Average Compensation up to the Social Security covered



ensation level and (b) 2% of his Average Compensation in excess of the Social Security covered compensation level,

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ii) 1% of his Average Compensation multiplied by his years of service in excess of 35, and subtracting from such sum the amount benefit payable to him under the Pension Plan. The DCM Pension Plan is unfunded; however, plan payments are unconditionally guaranteed by the Company under a guarantee agreement between the Company and Mr. Rosenkranz.

Other terms and conditions of the DCM Pension Plan are substantially similar to those of the Pension Plan, as described above.

**Qualified Deferred Compensation**

Under the RSLIC Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan"), certain employees of RSLIC, FRSLIC and DCM, including the named executive officers employed by these companies, can elect on an annual basis to defer from 1% to 10% of their cash compensation to be earned during the following year, with deferred amounts, plus investment earnings thereon, to be paid in accordance with the officers' elections with regard to the timing and form of distributions following the termination of employment. Payments deferred can be allocated to investment options comparable to the mutual fund options available under RSLIC's 401(k) plan. As part of the share-based component of the Company's compensation program, Share Units are granted to certain of the named executive officers. As discussed above, Messrs. Rosenkranz and Sherman are not entitled to receive the shares of Company common stock underlying such Share Units until after the termination of employment, subject to a further six-month deferral period where required by Section 409A of the Code. Accordingly, these executives' ability to realize monetary benefit from their Share Units, other than the dividend equivalents thereon, is deferred until such termination and the expiration of any required additional deferral period. See Compensation Discussion and Analysis - Share-Based Compensation above.

	Executive Contributions In Last Fiscal Year (\$)	Registrant Contributions In Last Fiscal Year (\$)	Aggregate Earnings In Last Fiscal Year (\$)	Aggregate Withdrawals/ Distributions In Last Fiscal Year (\$)	Aggregate Balance At Last Fiscal Year End (\$)
Mr. Rosenkranz	\$	\$	\$	\$ 404,805 (1)	\$ 27,796,626 (2)
Mr. Thomas W. Burghart			12,392		
Mr. David A. Sherman				37,114 (3)	2,548,475 (4)
Mr. Alexander Wilhelm					
Mr. William W. Coulter					

(1) Amounts consist of dividend equivalents paid in 2010 with respect to the Share Units described in footnote 2.

(2) Includes 890,673 vested and 73,149 unvested Class B Common Stock Share Units, as to which the underlying shares of Class B Common Stock will not be received by Mr. Rosenkranz until after the termination of his employment, assuming, in the case of the unvested units, the satisfaction of their vesting requirements. See Compensation Discussion and Analysis - Share-Based Compensation - Share Units above. The grants of these Share Units were previously reported as compensation to Mr. Rosenkranz in prior years' proxy statements in the Summary Compensation Tables relating to the years as to which such grants were made.

(3) Amount consists of dividend equivalents paid in 2010 with respect to the Share Units described in footnote 4.

(4) Includes 5,715 vested and 82,651 unvested Class A Common Stock Share Units as to which the underlying shares of Class A Common Stock will not be received by Mr. Sherman until after the termination of his employment, assuming the satisfaction of the units' vesting requirements. See Compensation Discussion and Analysis - Share-Based Compensation - Share Units above. The grants of these Share Units were previously reported as compensation to Mr. Sherman in prior years' proxy statements in the Summary Compensation Tables relating to the years as to which such grants were made.

**Additional Payments on Termination or Change in Control**

Company's change of control-related severance agreements and employment agreements for its named executive officers are described in this section. This section contains information relating to benefits that would have been payable under such agreements, under other existing plans and arrangements, based on a hypothetical termination of the relevant named executive officer's employment on December 31, 2010. These benefits are in addition to those generally furnished to all salaried employees of the Company by which the named executive officer is employed that would have applied in the event of such termination,

...ing on the circumstances; for example, disability and group life insurance benefits, retirement savings plan distributions and accrued vacation pay.

...r the terms of the Share Units granted to Messrs. Rosenkranz and Sherman, the receipt of the underlying shares of Common Stock will occur only following termination of employment. Accordingly, to the extent that the Share Units' time-vesting requirement has been met, the termination of either of their employment for any reason other than by the Company for cause, including a voluntary resignation or retirement, will, subject to a further six-month deferral period where required by Section 409A of the Code, entitle such officer to receive the number of shares of Company Class B (in Mr. Rosenkranz's case) or Class A Common Stock (in Mr. Sherman's case) that corresponds to the number of Share Units that had become vested at the time of such termination. In addition, each of the Share Unit awards granted to Messrs. Rosenkranz, Sherman and Coulter will, to the extent not then already vested, vest in its entirety upon a change of ownership with respect to the Company or the holder's termination of employment due to death or disability, by the Company without cause or voluntary termination for good reason, as these terms as defined in the applicable award agreements and, in the case of Mr. Rosenkranz, the Long-Term Incentive Plan. For these purposes:

...cause means, as to the termination by the Company of a named executive officer's employment, the officer's (a) conviction of a felony or other crime involving fraud, dishonesty or moral turpitude, (b) fraud with respect to the business of the Company, or (c) gross neglect of his duties.

...change of ownership occurs if (a) the current members of the Board of Directors and subsequent members having been approved by the Board pursuant to specified conditions cease to constitute a majority of the Board; (b) the stockholders approve a merger, consolidation, recapitalization or reorganization of the Company, reverse split of any class of voting securities of the Company, or an acquisition of securities or assets by the Company, or the sale or disposition by the Company of all or substantially all of the Company's assets, or if any such transaction is consummated without stockholder approval, unless in any such case the Company's voting stockholders receive in the transaction voting securities representing more than 60% of the voting power of the surviving or transferee entity; or (c) the stockholders approve a plan of complete liquidation of the Company.

...disability means an illness, injury, accident or condition causing the named executive officer to be unable to substantially perform the duties and responsibilities of his position for 180 days during a period of 365 consecutive calendar days.

...good reason means, as to a termination of employment by a named executive officer: (a) failure to reelect him to his officer position (except for termination for cause or due to disability); (b) reduction in the officer's base salary; (c) the failure to continue in the officer's any retirement, life insurance, medical insurance or disability plan unless substantially comparable benefits are provided; (d) an involuntary termination of the officer's employment for cause that is not effected in compliance with specified procedural requirements; and (e) in the case of Mr. Rosenkranz only, the termination of employment to enter public service.

...In addition, the terms of the Share Units and of the options granted to Mr. Rosenkranz under the Long-Term Incentive Plan entitle the officer to receive payment in respect of any golden parachute excise tax imposed by Section 4999 of the Code in respect of the vesting of such Share Units or options due to a change of control as described in Section 280G of the Code in order to adjust, on an after-tax basis, for the amount of any such tax. No payments to any of the named executive officers would have been required under such terms in respect to a change of ownership event having occurred at December 31, 2010.

...The Company is party to an employment agreement with Mr. Wilhelm with a five-year term expiring in December 2012, pursuant to which Mr. Wilhelm serves as the Chief Executive Officer of SNCC. The agreement established a minimum base salary, provides for an annual discretionary bonus and entitles him to receive various benefits maintained for SNCC's senior executives. Under this agreement, if Mr. Wilhelm's employment were terminated by SNCC other than for cause or by him for good reason, he would be entitled to receive a lump sum payment equal to the total base salary amounts payable for the longer of the remaining term of the agreement or 18 months plus the continuation of medical and other welfare benefits during the longer of such periods. In addition, if his employment were terminated due to death, his estate or beneficiary would be entitled to receive six months' base salary continuation.

...In addition, under the terms of Mr. Wilhelm's performance-contingent incentive options described above (see Compensation Discussion and Analysis Share-Based Awards Options and Restricted Shares above), if his employment were terminated during the options' 2012 performance period due to his death or disability, by SNCC without cause, or by him with good reason, such options would be exercisable based on SNCC's financial performance for the full period, but the number of such vested options would be pro-rated to reflect the portion of the period during which he was not employed. Finally, if a termination of Mr. Wilhelm's employment by SNCC other than for cause or by him for good reason were to occur following a change of ownership of the Company, and SNCC had, at that point, not met a specified minimum financial performance requirement under his performance-contingent incentive options discussed above, a portion of the performance period then having elapsed, the



g of these options would be accelerated in its entirety. For this purpose, change of ownership has the same definition as described in relation to the Share Units. In addition, for purposes of Mr. Wilhelm's employment agreement and performance-contingent incentive options:

disability has the meaning set forth in SNCC's then-current long-term disability policy or, if no policy is then in effect, means the inability of Mr. Wilhelm to perform his duties to SNCC on a full-time basis for a period of 180 consecutive business days.

cause means, as to a termination of Mr. Wilhelm's employment by SNCC, his (a) willful and continued failure to perform substantially his duties (other than as a result of incapacity), (b) willful misconduct which is materially injurious to SNCC, (c) material breach of such agreement, (d) being prohibited in writing by SNCC's domiciliary insurance regulator from serving as an SNCC executive officer; or (e) non-appealable conviction of or plea of nolo contendere to a felony.

good reason means, as to a termination by Mr. Wilhelm of his employment, (a) SNCC's having assigned to him any duties inconsistent with, or having materially diminished, his position, authority, duties or responsibilities; (b) SNCC's discontinuance of, or material reduction in or diminution of participation in his employee benefits so as to materially adversely affect his benefits or compensation as a whole unless such action is applicable to all SNCC executives or plan participants, as applicable; (c) his having been required to be based elsewhere than SNCC's home office; (d) SNCC's material breach of such agreement; or (e) any termination by SNCC of his employment not in accordance with such agreement.

Terms of the options granted to the named executive officers on a time-vesting basis do not provide for acceleration of their vesting upon the holder's retirement or voluntary or involuntary termination of employment, but do, in certain cases, provide for their full vesting in the event of a change of ownership event with respect to the Company, which is defined as described above in relation to the Share Units, or in the event of the death or disability (as determined by the Compensation Committee) of the holder.

Under the terms of Mr. Burghart's performance-contingent incentive options and restricted share awards described above (see Compensation Discussion and Analysis - Share-Based Awards - Options and Restricted Shares), such awards will vest upon the termination of his employment on the following terms: If his employment were terminated during the 2009-2012 performance period due to death or disability, by RSLIC without cause or by him with good reason, such options and restricted shares would vest based on SNCC's financial performance for the full period, but the number of such vested options and shares would be pro-rated to reflect the portion of the period during which he was not employed. In addition, if an employment termination by RSLIC other than for cause or by the optionee for good reason were to occur following a change of ownership event, and RSLIC had, at that point, satisfied the stated minimum financial performance requirement for the portion of the performance period then having elapsed, he would, unless the vesting of these options and restricted shares was then accelerated in its entirety, be entitled to receive an amount equal to the Black-Scholes value of the options. For purposes of these provisions, the definitions of cause, change of ownership, disability and termination are substantially similar to those described above in relation to the Share Units.

The table below reflects the estimated amounts of the compensation and benefits that would have been payable to the named executive officers under the plans and arrangements described in this section in the various events of termination of employment specified in the following columns. The amounts shown assume that such terminations were effective as of December 31, 2010, and thus include only amounts and awards having been earned or received through this date. As to share-based awards, such amounts are based upon the December 31, 2010 closing price of the Company's Class A Common Stock. The actual amounts that would be paid to a named executive officer upon termination of employment would be determined only at the time of such termination.

	Involuntary Not For Cause Termination	Involuntary For Good Reason Termination	Change of Ownership	Disability	Death
<b>Mr. Rosenkranz:</b>					
Unit Vesting Acceleration	\$2,109,617	\$2,109,617	\$2,109,617	\$2,109,617	\$2,109,617
<b>Mr. A. Sherman:</b>					
Unit Vesting Acceleration	2,383,655	2,383,655	2,383,655	2,383,655	2,383,655
Employment Option Vesting	438,020	438,020	438,020	438,020	438,020
<b>Mr. A. Wilhelm:</b>					
Severance	1,317,046	1,317,046			329,262
Health and Welfare Benefits	67,004	67,004			
Employment Option Vesting					
<b>Mr. Thomas W. Burghart:</b>					
Restricted Share Vesting Acceleration (1)	745,629	745,629		181,933	181,933
Employment Option Vesting	237,000	237,000		57,828	57,828
<b>Mr. W. Coulter:</b>					
Unit Vesting Acceleration	810,087	810,087	810,087	810,087	810,087
Employment Option Vesting					

The amounts shown in the first and second columns for Mr. Burghart assume that the termination had been preceded by a change of ownership event. Otherwise, the amounts would be equal to the lesser amounts shown for the applicable award in the fourth and fifth columns, the amount of which, when determined following the 2009-2012 period under the terms of his award agreement in the hypothetical scenarios, would depend upon the extent to which RSLIC meets the financial performance target for such period. See Compensation Discussion and Analysis Share-Based Awards Options and Restricted Shares above. The indicated amount is based upon the Company's estimated level of the performance to be attained for such period; however, the actual level of performance will likely differ from this estimate.

#### Directors Compensation

The following table sets forth compensation paid by the Company to the non-employee directors of the Company during 2010.

	Fees Earned or Paid in	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation (4)	Total
	Cash (1)						
	\$	\$	\$	\$	\$	\$	\$
Mr. R. Brine	\$63,000	\$50,000	\$58,280	\$	\$	\$ 40,000	\$211,280

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rd A. Fox	58,250	50,000	58,280	40,000	206,530
n A. Hirsh	70,469	50,000	58,280	4,500	183,249
M. Litvack	67,881	50,000	58,280	3,900	180,061
N. Meehan	73,000	50,000	58,280		181,280
R. O Connor	72,198	50,000	58,280	25,200	205,678
t F. Wright	65,594	50,000	58,280	19,000	192,874

Fees earned consist of the annual retainer for Board service and Board and committee meeting fees. As discussed below, outside directors have the ability to receive options or restricted shares, in lieu of cash, in payment of the annual retainer. The following directors received, on May 5, 2010, Class A Common Stock options, in lieu of cash, in respect of all or part of their annual retainers in the following amounts: Mr. O Connor 5,697 options; Messrs. Hirsh and Wright 2,848 options and Mr. Litvack 2,279 options. In addition, Mr. Brine received, on May 5, 2010, 950 restricted shares of Class A Common Stock in lieu of cash in respect of a portion of his annual retainer. The grant date fair values of these restricted shares and options, and the exercise price under the options, were the same as for the grants of restricted shares and options as set forth in notes (2) and (3) below.

Amount represents the aggregate grant date fair values, computed in accordance with ASC 718, of the restricted shares granted to each outside director



on May 5, 2010. The grant date fair value per share for these restricted shares, which was based on the market closing price per share of the Company's Class A Common Stock on such date, was \$26.33. These amounts do not necessarily reflect the values that will ultimately be realized with respect to this grant. Further information relating to the terms of these restricted shares is contained in the discussion below.

Amounts represent the aggregate grant date fair values, computed in accordance with ASC 718, of the options granted to each outside director on May 5, 2010. See Note L to the Consolidated Financial Statements in the Company's 2010 Annual Report on Form 10-K for the assumptions made in determining such values. The exercise price under each such option was \$26.33 and the grant date fair value per option was \$10.18. These amounts do not necessarily reflect the values that will ultimately be realized with respect to these grants. Further information relating to the terms of these options is contained in the discussion below.

Includes Company matches of charitable gifts under the program discussed below.

Following table sets forth additional information relating to restricted share and option awards to the non-employee directors of the Company that were outstanding as of as of December 31, 2010:

	Number of Restricted Shares	Number of Options
R. Brine	2,374	82,000
rd A. Fox	1,899	162,074
n A. Hirsh	1,899	77,049
M. Litvack	1,899	74,324
N. Meehan	1,899	88,504
R. O Connor	1,899	115,071
t F. Wright	1,899	76,641

outside director presently serving on the Board receives an annual retainer for such service in the amount of \$50,000 (the Annual Retainer). In addition, outside directors receive a fee of \$750 plus expenses for each Board of Directors and committee meeting attended, except that the fee is \$1,000 for Audit Committee meetings. Under the 2010 Outside Directors Stock Plan (the Directors Plan), the Company has provided to its outside directors the opportunity to receive, in lieu of cash in respect of the Annual Retainer, shares to purchase Class A Common Stock and restricted shares of Class A Common Stock, as well as annual grants of options and restricted shares that are separate and apart from the Annual Retainer, all as described below.

Under the Directors Plan, the Annual Retainer is paid through the grant of options, unless such director elects in advance to receive the Annual Retainer in cash or in restricted shares. Options (or, if elected by the outside director, restricted shares) are granted on the first business day following the date on which each outside director is elected, reelected or appointed. The number of options granted is equal to (a) three times the director's Annual Retainer for the applicable period divided by (b) the closing price per share of the Class A Common Stock, as reported through the NYSE on the grant date, and the exercise price is equal to such closing price. If restricted shares are elected by an outside director, the number of restricted shares granted is equal to the nearest number of whole shares determined by dividing the Annual Retainer by such closing price on the date of grant. Options or restricted shares granted in respect of the Annual Retainer vest in four quarterly installments and options expire ten years from the date of grant.

In addition, under the Directors Plan, each outside director in office on the business day following the Company's Annual Meeting of Shareholders receives grants of (a) restricted shares of Class A Common Stock in an amount equal to the nearest whole number determined by dividing \$50,000 by the fair market value on the award date and (b) options exercisable for a number of shares of Class A Common Stock equal to the nearest whole number determined pursuant to the following formula: Number of option shares =

000 multiplied by 3) divided by (fair market value on the award date). For the option grant, the exercise price per share is 100% of fair market value on the date of the grant. For all purposes of the Directors Plan, the fair market value for a given date is the closing price per share of Class A Common Stock, as reported through the NYSE (the NYSE Closing Price ), for such date. The restricted shares and options both vest in three equal annual installments, commencing on the first anniversary of the date of the grant, and the options expire ten years from the date of grant. All options have a term of ten years from the date of grant.

In addition to the formulaic annual option grants under the Directors Plan, as described above, the Board of Directors of the Company reserves the ability to make grants of options to outside directors at such times and in such amounts as are determined in its discretion. As is the case for options granted under the formulaic provisions of the plan, the exercise price for any options granted under this provision is the closing price per share of the Class A Common Stock, as reported on the NYSE for the grant date, and such options expire ten years from the date of grant.

The Company has a matching charitable gifts program for its outside directors under which the Company matches, on a two-to-one basis, the charitable contributions made by the director to qualified educational institutions and institutions dedicated to the

ment of the arts, under which the maximum amount of the Company's matching contributions for any one director in any calendar year is \$40,000.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Under the Company's review policy for related party transactions, such transactions are subject to a prior review and approval process in which proposed transactions of this type are initially reviewed by the Governance Committee. If, based on this review, this committee recommends to the full Board that the transaction be approved, such recommendation is submitted to the Board for consideration and, if deemed appropriate, acceptance. Such acceptance requires the affirmative vote of a majority of the disinterested directors. In addition, under the policy, existing related party transactions are reviewed by the Governance Committee on at least an annual basis. This policy is available on the Company's website ([www.delphifin.com/corp\\_governance](http://www.delphifin.com/corp_governance)) and in print to any stockholder upon request. All of the related party transactions in effect have either been pre-approved under such policy or, where entered into after the adoption of such policy, have received periodic review under the policy.

Pursuant to two separate consulting agreements, RSLIC and the Company pay to Rosenkranz Asset Managers LLC ( "RAM" ), a wholly owned subsidiary of Rosenkranz & Company, L.P., fees associated with the formulation of investment and other strategies. Under these agreements, such fees are assessed at a quarterly rate of five basis points (.05%), applied to the average quarterly market values of specified investment portfolios, subject to specified annual maximum amounts. These specified maximum amounts are escalated annually at a rate of 10%. The fees under these agreements totaled \$8.5 million for the year ended December 31, 2010 and are expected to total \$9.4 million for calendar year 2011. The Company believes that the fees charged under these agreements are comparable to fees charged by unaffiliated third parties for consulting services of considerably narrower scope than the services provided thereunder.

Pursuant to an expense allocation agreement, a subsidiary of the Company received periodic payments from RAM, Acorn Partners, and various other entities in which Mr. Rosenkranz has personal financial interests in respect of expenses associated with certain office space, facilities and personnel. The total amount of these payments for 2010 was \$5.8 million. In addition, RAM in 2011 made a payment to Mr. Sherman in the amount of \$450,000 in respect of services rendered by him during 2010 to various entities in which Mr. Rosenkranz has personal financial interests. During 2010, a subsidiary of the Company maintained investment management arrangements pursuant to a discrete investment program with Pergamon Advisors and its affiliated entities, of which Mr. Rosenkranz and related entities own a substantial majority of the financial interests. Under such arrangements, management and, to the extent applicable, performance-based fees are paid to such entities. The Company believes that such fees, which totaled \$0.3 million for 2010, are comparable to fees charged by unaffiliated third parties in connection with similar investment programs. As of December 31, 2010, the amount invested by the Company's subsidiary under such arrangements was \$20.4 million.

#### **AUDIT COMMITTEE REPORT**

During 2010, the Audit Committee approved the selection of the Company's independent registered public accounting firm, Ernst & Young LLP, to audit the Company's consolidated financial statements. The Audit Committee discussed with such firm and with the Company's internal auditors the overall scope and plans for their respective audits, and regularly met with such firm and the internal auditors, with and without management present, to discuss the results of their audits, their evaluations of the Company's internal controls, the progress and results of management's assessment of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and such other matters as the Audit Committee deemed appropriate.

The Audit Committee met with management and the independent registered public accounting firm to review and discuss the Company's audited consolidated financial statements for the fiscal year ended December 31, 2010, and discussed with such firm the matters required to be discussed by Public Company Accounting Oversight Board (the "PCAOB") Rule 3200T. In addition, the Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the PCAOB regarding the communications of such firm with the audit committee concerning independence, as discussed with the independent registered public accounting firm its independence. The Audit Committee considered whether the provision of non-audit services to the Company was compatible with maintaining the auditor's independence and also reviewed the amount of fees paid to the independent registered public accounting firm for audit and non-audit services. Based on such review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission.

N. Meehan, Chairman

R. Brine

n A. Hirsh



### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has engaged the firm of Ernst & Young LLP to serve as the Company's independent registered public accounting firm for 2010 and 2011. See "Proposal to Ratify the Appointment of the Company's Independent Registered Public Accounting Firm" at Item 9 above. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting to respond to appropriate questions relating to the audit of the Company's consolidated financial statements for the fiscal year ended December 31, 2010 and to provide a statement if they so desire.

For 2010 and 2009, Ernst & Young LLP's fees for professional services were as follows:

**Fees.** Fees for audit services were \$2,276,998 in 2010 and \$2,540,553 in 2009, consisting of fees associated with the annual audit of the Company's consolidated financial statements and the annual audit of the Company's internal control over financial reporting, the review of the condensed financial statements included in the Company's quarterly reports on Form 10-Q and the statutory audits required for the Company's insurance subsidiaries, reviews of registration statements and accounting consultations.

**Related Fees.** Fees for audit-related services, including transactional due diligence services and employee benefit plan audits, were \$221,429 in 2010 and \$97,206 in 2009.

**Tax Fees.** Fees for tax services, including tax compliance, advice and planning, were \$0 in 2010 and \$89,021 in 2009.

**Other Fees.** Fees for services other than the types described above were \$95,982 in 2010 and \$77,371 in 2009. These services included certain network security assessments and an online accounting research service.

**Audit and Non-audit Services Pre-approval Policy.** The Audit Committee has adopted a formal policy concerning the pre-approval of audit and non-audit services to be provided by the Company's independent auditor. The policy requires that the Audit Committee pre-approve all services to be performed by the independent auditor, including audit services, audit-related services, tax services and non-audit services. Pursuant to such policy, the annual audit engagement terms and fees are subject to the specific pre-approval of the Audit Committee, and such committee periodically pre-approves fee levels or budget amounts for specifically identified categories of other services. The term of any such pre-approval is 12 months from the date thereof, unless the Audit Committee specifically provides for a different period. Services not falling within such categories of pre-approved services require the specific pre-approval of the Audit Committee. The Audit Committee may delegate pre-approval authority to one or more of its members, and has presently delegated such authority to its Chairman. The Audit Committee pre-approved all services provided by Ernst & Young LLP during 2010 and 2009 in accordance with this policy.

### **FINANCIAL STATEMENTS AVAILABLE**

The consolidated financial statements for Delphi Financial Group, Inc. are contained in the Company's 2010 Annual Report on Form 10-K for the year ended December 31, 2010, which is included within the 2010 Annual Report to Stockholders being mailed together with the Proxy Statement and is also available at [www.delphifin.com/financial/proxymaterials.html](http://www.delphifin.com/financial/proxymaterials.html). Additional copies of the Form 10-K and the 2010 Annual Report to Stockholders may be obtained without charge by submitting a written request to the Investor Relations Department, Delphi Financial Group, Inc., 1105 North Market Street, Suite 1230, Wilmington, Delaware 19801.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

In accordance with the Company's knowledge, based solely on its review of Forms 3, 4 and 5 and amendments thereto furnished to the Company pursuant to Section 16 of the Securities Exchange Act of 1934 and written representations that no other reports were required for such persons, all persons subject to these reporting requirements filed the required reports on a timely basis.

### **STOCKHOLDER PROPOSALS FOR 2012 ANNUAL MEETING OF STOCKHOLDERS**

Any stockholder of the Company who satisfies the requirements of the SEC and wishes to submit a proposal to be considered for inclusion in the Company's proxy materials for the 2012 Annual Meeting of Stockholders must send such proposal to the Company at 1105 North Market Street, Suite 1230, Wilmington, Delaware 19801, attention: Secretary. Under the SEC's rules, such proposal must be received by the Company at such location by December 10, 2011.

Pursuant to the Company's Amended and Restated By-Laws, in order for any matter not included in the Company's proxy materials for the 2012 Annual Meeting of Stockholders to be brought before the meeting by a stockholder of the Company entitled to vote at the meeting, including but not limited to the nomination of a person for election a director, the stockholder must give

written notice of that business to the Company's Secretary. To be timely, the notice must be received no earlier than January 5, and no later than February 4, 2012. The notice must contain the information required by the applicable provisions of the Company's Amended and Restated By-Laws. These provisions do not affect a stockholder's ability to submit a proposal to be considered for inclusion in the Company's proxy materials for the 2012 Annual Meeting of Stockholders as referenced in the preceding paragraph. The officer presiding at the meeting may exclude matters that are not properly presented in accordance with these requirements.

**OTHER MATTERS**

The Board of Directors knows of no other proposals which may be presented for action at the 2011 Annual Meeting of Stockholders. However, if any other proposal properly comes before the Annual Meeting, the persons named in the proxy form enclosed will vote in accordance with their judgment upon such matter.

**Stockholders are urged to promptly vote and return the enclosed form of proxy in the enclosed envelope.**

By Order of the Board of Directors,

Robert Rosenkranz  
Chairman of the Board  
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Stockholder,  
Please take note of the important information enclosed with this Proxy. Your vote counts, and you are strongly encouraged to exercise your right to vote your shares.  
Please mark the boxes on this proxy card to indicate how your shares will be voted. Then sign, detach and return the card in the enclosed postage paid envelope.  
Your card must be received prior to the 2011 Annual Meeting of Stockholders, scheduled to be held on May 10, 2011.  
Thank you in advance for your prompt consideration of these matters.  
Sincerely,  
Robert Rosenkranz  
Chairman of the Board

o n

**This Proxy is Solicited on Behalf of the Board of Directors of Delphi Financial Group, Inc.**

The undersigned stockholder hereby appoints Robert Rosenkranz and Donald A. Sherman, or either of them, as attorneys or proxies, with full power of substitution, and hereby authorizes each of them to represent and vote in the manner designated below (or, if no designation is made, as provided on the reverse side of this card), all of the shares of Class A Common Stock of Delphi Financial Group, Inc. (the "Company") held of record by the undersigned at the close of business on March 31, 2011 at the Company's 2011 Annual Meeting of Stockholders scheduled to be held on May 10, 2011 at 10:00 a.m., EDT, or any adjournments or postponements thereof.

**(Continued and to be signed on the reverse side)**

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**2011 ANNUAL MEETING OF STOCKHOLDERS OF  
DELPHI FINANCIAL GROUP, INC.**

**May 10, 2011**

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:**

**The Notice of Meeting, proxy statement and proxy card  
are available at <http://www.delphifin.com/financial/proxymaterials.html>**

Please sign, date and mail  
your proxy card in the  
envelope provided as soon  
as possible.

â Please detach along perforated line and mail in the envelope provided. â

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**THE BOARD OF DIRECTORS RECOMMENDS VOTES FOR THE ELECTION OF ALL DIRECTOR NOMINEES, FOR PROPOSALS 2 AND 3 AND 1 YEAR FOR PROPOSAL 4.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE ý**

		FOR	AGAINST	ABSTAIN	
Election of Directors:		o	o	o	
	<b>NOMINEES:</b>				
	; Philip R. O Conno				
	; Robert Rosenkranz				
<b>FOR ALL NOMINEES</b>	Director				
					2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011.
<b>WITHHOLD AUTHORITY FOR ALL NOMINEES</b>	; Donald A. Sherman	o	o	o	
	; Kevin R. Brine				
	; Edward A. Fox				
					3. To approve, on an advisory basis, the compensation of the named executive officers as disclosed in the Proxy Statement.
<b>FOR ALL EXCEPT (See instructions below)</b>	; Steven A. Hirsh				
	; Harold F. Ilg				
	; James M. Litvack				1 year 2 years 3 years ABSTAIN
	; James N. Meehan				
	; Robert F. Wright	o	o	o	o
					4. To express a preference, on an advisory basis, on the frequency of executive compensation



advisory votes.

Authority is hereby given to the proxies to vote, in their discretion, upon such other business as may properly come before the Annual Meeting or any adjournment thereof.

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to the nominee you wish to withhold, as shown here: =

This Proxy, if signed and returned, will be voted as indicated. If it is signed and returned without any indication as to how to vote, this Proxy will be voted **FOR** all nominees for Director, **FOR** Proposals 2 and 3 and in favor of **1 Year** for Proposal 4. The Board of Directors recommends a vote **FOR** all nominees for Director, **FOR** Proposals 2 through 3 and in favor of **1 Year** for Proposal 4.

The undersigned acknowledges receipt of the Company's 2010 Annual Report to Stockholders, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and the Notice of Annual Meeting of Stockholders and Proxy Statement dated April 14, 2011, grants authority to each of the proxies or their substitutes as aforementioned, and ratifies and confirms all that said proxies may lawfully do in the undersigned's name, place and stead.

To change the address on your account, please check the box to the right and indicate your new address in the address field above. Please note that changes to the registered address(es) on the account may not be submitted via this proxy.

Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_ Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_

**Instructions:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.