WAL MART STORES INC
Form DEF 14A
April 22, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Wal-Mart Stores, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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702 Southwest 8th Street

Bentonville, Arkansas 72716-0215

(479) 273-4000

Corporate website: www.walmartstores.com

NOTICE OF 2008 ANNUAL SHAREHOLDERS MEETING

To Be Held June 6, 2008

Please join us for the 2008 Annual Shareholders Meeting of Wal-Mart Stores, Inc. The meeting will be held on Friday, June 6, 2008, at 7:00 a.m. in Bud Walton Arena, University of Arkansas, Fayetteville, Arkansas.

The purposes of the 2008 Annual Shareholders Meeting are:

(1) to elect as directors the 15 nominees named in the attached proxy statement;

(2) to approve the Wal-Mart Stores, Inc. Management Incentive Plan, as amended and restated;

(3) to ratify the appointment of Ernst & Young LLP as the independent accountants of Wal-Mart Stores, Inc.;

(4) to vote on the eight shareholder proposals described in the attached proxy statement; and

(5) to transact other business properly brought before the 2008 Annual Shareholders Meeting.

You must be the holder of record of shares of Wal-Mart Stores, Inc. common stock at the close of business on April 10, 2008, to vote at the 2008 Annual Shareholders Meeting**If you plan to attend, please bring the Admittance Slip on the back cover and picture identification.** Regardless of whether you will attend, please vote as described on page 5 of the proxy statement. Voting in any of the ways described will not prevent you from attending the 2008 Annual Shareholders Meeting.

Important Notice Regarding the Availability of Proxy Materials for the 2008 Annual Shareholders Meeting. Pursuant to new rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials both by: (i) sending you this full set of proxy materials, including a proxy card; and (ii) notifying you of the availability of our proxy materials on the internet. **This proxy statement and our Annual Report to Shareholders for the fiscal year ended January 31, 2008, along with a press release relating to two new nominees for election as directors, are available at our corporate website and may be accessed at www.walmartstores.com by**

clicking on "Investors" and then "Annual Shareholders' Meeting." In accordance with such rules, we do not use "cookies" or other software that identifies visitors accessing these materials on our website.

By Order of the Board of Directors

Thomas D. Hyde

Secretary

Bentonville, Arkansas

April 22, 2008

Admittance Requirements on Back Cover

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Bentonville, Arkansas 72716-0215

(479) 273-4000

Corporate website: www.walmartstores.com

PROXY STATEMENT

This proxy statement and accompanying proxy card are being mailed beginning April 22, 2008, in connection with the solicitation of proxies by the Board of Directors of Wal-Mart Stores, Inc., a Delaware corporation, for use at the 2008 Annual Shareholders Meeting. The meeting will be held in Bud Walton Arena, University of Arkansas, Fayetteville, Arkansas, on Friday, June 6, 2008, at 7:00 a.m.

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TABLE OF ABBREVIATIONS

The following abbreviations are used for terms that appear in more than one section of this proxy statement:

2005 Stock Incentive Plan: Wal-Mart Stores, Inc. Stock Incentive Plan of 2005, as it amended and restated the Wal-Mart Stores, Inc. Stock Incentive Plan of 1998

Annual Report to Shareholders: the Wal-Mart 2008 Annual Report to Shareholders

Associate: an employee of Wal-Mart or one of its subsidiaries

Board: the Board of Directors of Wal-Mart

Board committees:

Audit Committee

CNGC: Compensation, Nominating and Governance Committee

Executive Committee

SOC: Stock Option Committee

SPFC: Strategic Planning and Finance Committee

Bylaws: the amended and restated Bylaws of Wal-Mart, effective as of September 21, 2006

Categorical Standards: standards adopted by the Board that describe types of relationships that a director might have with Wal-Mart or its subsidiaries that the Board believes are *per se* immaterial to a director s independence, as permitted by the NYSE Listed Company Manual

CD&A: the Compensation Discussion and Analysis, located in this proxy statement

CEO: the Chief Executive Officer

CFO: the Chief Financial Officer

Chairman: the Chairman of a board of directors

Computershare: Computershare Trust Company, N.A., Wal-Mart s transfer agent

Deferred Compensation Plan: the Wal-Mart Stores, Inc. Officer Deferred Compensation Plan, as amended and restated effective January 1, 2005

Director Compensation Plan: the Wal-Mart Stores, Inc. Director Compensation Plan, as amended and restated effective January 1, 2005

E&Y: Ernst & Young LLP, Wal-Mart s independent registered public accounting firm

Exchange Act: the Securities Exchange Act of 1934, as amended

Executive Officers: certain senior officers designated by the Board and as defined by Rule 3b-7 under the Exchange Act that have certain disclosure obligations and who also must report certain transactions in equity securities of the Company under Section 16

Fiscal 2006, fiscal 2007, fiscal 2008, and fiscal 2009: Wal-Mart s fiscal years ending January 31, 2006, 2007, 2008, and 2009, respectively

Independent Directors: the directors whom the Board has determined have no material relationships with the Company pursuant to the standards set forth in the NYSE Listed Company Manual and, as to members of the Audit Committee, who meet the requirements of Section 10A of the Exchange Act and Rule 10A-3 under the Exchange Act

Management Incentive Plan or MIP: the Wal-Mart Stores, Inc. Management Incentive Plan, as amended and restated effective February 1, 2008

Named Executive Officers or NEOs: the Company s President and CEO, CFO, and the next three most highly compensated Executive Officers

Non-Management Directors: the members of the Board who do not hold another position with Wal-Mart or one of its subsidiaries

NYSE: the New York Stock Exchange

NYSE Listed Company Manual: the manual of the NYSE that sets forth policies, practices, and procedures for companies with securities listed for trading on the NYSE

Profit Sharing/401(k) Plan: the Wal-Mart Profit Sharing and 401(k) Plan, as restated effective October 31, 2003, and subsequently amended

SEC: the Securities and Exchange Commission

Section 16: Section 16 of the Exchange Act

SERP: the Wal-Mart Stores, Inc. Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2005

Share or Shares: a share or shares of Wal-Mart common stock, $0.10 par value per share

SOX: the Sarbanes-Oxley Act of 2002

Stock Purchase Plan: the Wal-Mart Stores, Inc. 2004 Associate Stock Purchase Plan, as restated effective February 1, 2004, and subsequently amended

Wal-Mart, the Company, we, our or us : Wal-Mart Stores, Inc.

Your proxy is solicited by the Board. The Company pays the cost of soliciting your proxy and reimburses brokers and others for forwarding to you the proxy statement, proxy card, and Annual Report to Shareholders.

VOTING INFORMATION

Who may vote? You may vote if you were the holder of record of Shares at the close of business on April 10, 2008. You are entitled to one vote on each matter presented at the 2008 Annual Shareholders Meeting for each Share you owned on that date. If your Shares are held in street name through a bank, broker, or other nominee, you must obtain a proxy, executed in your favor, from the holder of record as of the close of business on April 10, 2008, to be able to vote at the meeting. As of April 10, 2008, Wal-Mart had 3,950,091,346 Shares outstanding.

What am I voting on? You are voting on:

the election as directors of the 15 nominees named in this proxy statement;

the approval of the Management Incentive Plan;

the ratification of the appointment of E&Y as Wal-Mart s independent accountants;

the eight shareholder proposals described in this proxy statement; and

other matters properly brought before the 2008 Annual Shareholders Meeting.

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Who counts the votes? Computershare will count the votes. The Board has appointed two employees of Computershare as the inspectors of the election.

Is my vote confidential? Yes, your proxy card or ballot and voting records will not be disclosed unless the law requires disclosure, you request disclosure, or your vote is cast in a contested election. If you write comments on your proxy card or ballot, your comments will be provided to Wal-Mart, but how you voted will remain confidential.

What is the quorum requirement for holding the 2008 Annual Shareholders Meeting? The holders of a majority of the Shares outstanding as of the record date for the meeting must be present in person or represented by proxy for the meeting to be held.

What vote is required to elect a director at the 2008 Annual Shareholders Meeting? In an uncontested election of directors, to be elected, a director nominee must receive affirmative votes representing a majority of the votes cast by the holders of Shares present in person or represented by proxy at the 2008 Annual Shareholders Meeting and entitled to vote on the election of directors (a majority vote). In a contested election of directors, to be elected, a director nominee must receive a plurality of the votes of the holders of Shares present in person or represented by proxy at the 2008 Annual Shareholders Meeting and entitled to vote on the election of directors. Under the Bylaws, an uncontested election is an election in which the number of nominees for director is not greater than the number to be elected and a contested election is an election in which the number of nominees for director is greater than the number to be elected.

What happens if a director nominee does not receive a majority vote in an uncontested election at the 2008 Annual Shareholders Meeting? A director nominee who is not an incumbent Board member and who does not receive a majority vote will not be elected as a director and a vacancy will be left on the Board.

Any incumbent director who is a director nominee and who does not receive a majority vote must promptly tender his or her offer of resignation as a director for consideration by the Board. Each incumbent director standing for re-election at the 2008 Annual Shareholders Meeting has agreed to resign, upon acceptance of such resignation by the Board, if he or she does not receive a majority vote. The Board must accept or reject such resignation within 90 days following certification of the shareholder vote in accordance with the procedures established by the Bylaws.

If a director s resignation offer is not accepted by the Board, that director will continue to serve until the Company s next annual shareholders meeting and his or her successor is duly elected and qualified or until the director s earlier death, resignation, or removal. The Board, in its sole discretion, may either fill a vacancy resulting from a director nominee not receiving a majority vote pursuant to the Bylaws or decrease the size of the Board to eliminate the vacancy.

What vote is required to pass the other proposals at the 2008 Annual Shareholders Meeting? The affirmative vote of the holders of a majority of the Shares present in person or represented by proxy at the meeting and entitled to vote is required for ratification of the appointment of E&Y as Wal-Mart s independent accountants, for approval of the Management Incentive Plan, and for each of the shareholder proposals.

What is the effect of an abstention or withhold vote on the proposals to be voted on at the 2008 Annual Shareholders Meeting? A Share voted abstain with respect to any proposal is considered as present and entitled to vote with respect to that proposal, but is not considered a vote cast with respect to that proposal. Therefore, an abstention will not have any effect on the election of directors. Because each of the other proposals requires the affirmative vote of the holders of a majority of the Shares present and entitled to vote on each such proposal in order to pass, an abstention will have the effect of a vote against each of the other proposals. A withhold vote with respect to any director nominee will have the effect of a vote against such nominee.

What is the effect of a broker non-vote on the proposals to be voted on at the 2008 Annual Shareholders Meeting? A broker non-vote occurs if your Shares are not registered in your name and you do not provide the record holder of your Shares (usually a bank, broker, or other nominee) with voting instructions on a matter and the record holder is not permitted to vote on the matter without instructions from you under applicable NYSE rules. A broker non-vote is considered present for purposes of determining whether a quorum exists, but is not considered a vote cast or entitled to vote with respect to such matter. Therefore, broker non-votes will not have any effect on any of the matters to be voted on at the 2008 Annual Shareholders Meeting.

Under NYSE rules, the eight shareholder proposals described in this proxy statement are not considered discretionary items. Therefore, if you do not provide instructions to the record holder of your Shares with respect to these proposals, a broker non-vote will result with respect to these proposals. The election of directors, the ratification of appointment of independent accountants, and the approval of the Management Incentive Plan are routine items under NYSE rules. As a result, brokers who do not receive instructions as to how to vote on these matters generally may vote on these matters in their discretion.

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How do I vote? The process for voting your Shares depends on how your Shares are held. Generally, you may hold Shares in your name as a record holder or in street name (that is, through a nominee, such as a broker or bank).

If you are a record holder, you may vote by proxy or you may vote in person at the 2008 Annual Shareholders Meeting. If you are a record holder and would like to vote your Shares by proxy prior to the 2008 Annual Shareholders Meeting, there are three ways for you to vote:

- call 1-800-652-VOTE (1-800-652-8683) within the U.S., Canada, and Puerto Rico and outside of the U.S., Canada, and Puerto Rico, call 1-781-575-2300;

- log on to the internet at: www.investorvote.com/wmt and follow the instructions at that site; or

- complete, sign, and mail the proxy card in the enclosed return envelope.

Please note that telephone and internet voting will close at 11:00 p.m. (CT) on June 5, 2008.

If you plan to attend the 2008 Annual Shareholders Meeting and wish to vote in person, you will be given a ballot at the 2008 Annual Shareholders Meeting. Please note that you may vote by proxy prior to June 6, 2008 and still attend the 2008 Annual Shareholders Meeting.

If your Shares are held in the name of a broker, bank, or other nominee, you should receive separate instructions from the holder of your Shares describing how to vote. Nonetheless, if your Shares are held in the name of a broker, bank, or other nominee and you want to vote in person, you will need to obtain (and bring with you to the 2008 Annual Shareholders Meeting) a legal proxy from the record holder of your Shares (who must have been the record holder of your Shares as of the close of business on April 10, 2008) indicating that you were a beneficial owner of Shares as of the close of business on April 10, 2008, as well as the number of Shares of which you were the beneficial owner on the record date.

If your Shares are held through the Profit Sharing/401(k) Plan or the Wal-Mart Puerto Rico Profit Sharing and 401(k) Plan and you do not vote your Shares in one of the methods described above, your Shares will be voted by the Retirement Plans Committee of the Company in accordance with the rules of the applicable plan.

What if I do not specify a choice for a matter when returning a proxy? Unless you indicate otherwise, the persons named as proxies on the proxy card will vote your Shares: FOR all of the nominees for director named in this proxy statement; FOR the ratification of E&Y as Wal-Mart s independent accountants; FOR approval of the Management Incentive Plan; and AGAINST each of the eight shareholder proposals.

Can I revoke my proxy? Yes, you can revoke your proxy if you are a record holder by:

- filing written notice of revocation with Wal-Mart s Corporate Secretary before the 2008 Annual Shareholders Meeting;

- signing a proxy bearing a later date than the proxy being revoked and submitting it to Wal-Mart s Corporate Secretary before the 2008 Annual Shareholders Meeting; or

- voting in person at the 2008 Annual Shareholders Meeting.

If your Shares are held in street name through a broker, bank, or other nominee, you need to contact the holder of your Shares regarding how to revoke your proxy.

INFORMATION ABOUT THE BOARD

Wal-Mart s directors are elected at each annual shareholders meeting and hold office until the next election. All nominees for election to the Board are presently directors of Wal-Mart, except for Gregory B. Penner and Arne M. Sorenson, who are standing for election as directors for the first time. Assuming shareholders elect all the director nominees named in this proxy statement at the 2008 Annual Shareholders Meeting, Wal-Mart will continue to have 15 directors. The Board has authority under the Bylaws to fill vacancies and to increase or, upon the occurrence of a vacancy, decrease the Board s size between annual shareholders meetings.

Your proxy holder will vote your Shares for the Board s nominees unless you instruct otherwise. If a nominee is unable to serve as a director, your proxy holder may vote for any substitute nominee proposed by the Board.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

The following candidates are nominated by the Board based on the recommendation of the CNGC. They have held the positions shown for at least five years unless otherwise noted. They were selected on the basis of outstanding achievement in their professional careers; broad experience; wisdom; personal and professional integrity; ability to make independent, analytical inquiries; experience with and understanding of the business environment; and willingness to devote adequate time to Board duties. The Board is committed to a diverse membership. In selecting nominees, the Board does not discriminate on the basis of race, color, national origin, gender, religion, disability, or sexual preference.

Aida M. Alvarez, 58

Ms. Alvarez is the former Administrator of the U.S. Small Business Administration and was a member of President Clinton s Cabinet from 1997 to 2001. She was the founding Director of the Office of Federal Housing Enterprise Oversight, the financial regulator of Fannie Mae and Freddie Mac, from 1993 to 1997. Ms. Alvarez was a vice president in public finance at First Boston Corporation and Bear Stearns & Co., Inc. prior to 1993. She is presently Chair of the Latino Community Foundation of San Francisco and a director of UnionBanCal Corporation. Ms. Alvarez also serves on the diversity advisory board for Deloitte & Touche LLP. Ms. Alvarez has been a member of the Board since 2006.

James W. Breyer, 46

Mr. Breyer is a Managing Partner of Accel Partners, a venture capital firm. He also serves as a director of RealNetworks, Inc., Marvel Entertainment, Inc., and several private companies. Mr. Breyer has been a member of the Board since 2001.

M. Michele Burns, 50

Ms. Burns is the Chairman and CEO of Mercer LLC, a subsidiary of Marsh & McLennan Companies, Inc. She joined Marsh & McLennan Companies, Inc., a global professional services and consulting firm, in March 2006 and served as Executive Vice President and CFO until September 2006. She is the former Executive Vice President, CFO, and Chief Restructuring Officer of Mirant Corporation, an energy company, where she served from April 2004 to December 2005. She served as the Executive Vice President and CFO of Delta Air Lines, Inc., an air carrier, from August 2000 through April 2004. She also serves as a director of Cisco Systems, Inc. Ms. Burns has been a member of the Board since 2003.

James I. Cash, Jr., 60

Dr. Cash is the James E. Robison Emeritus Professor of Business Administration at Harvard Business School, where he served from July 1976 to October 2003. Dr. Cash also served as the Senior Associate Dean and Chairman of HBS Publishing while on the faculty of the Harvard Business School. Dr. Cash serves as a director of The Chubb Corporation, General Electric Company, Phase Forward Inc., and Microsoft Corporation. Dr. Cash has been a member of the Board since 2006.

Roger C. Corbett, 65

Mr. Corbett is the retired CEO and Group Managing Director of Woolworths Limited, the largest retail company in Australia. Mr. Corbett is a director of The Reserve Bank of Australia, Fairfax Media Limited (a major Australian newspaper publisher), Chairman of the board of directors of ALH Group Pty Limited and Deputy Chairman of PrimeAg Australia (a major Australian farming enterprise). He is a former member of the Prime Minister s Community Business Partnership and serves on the board of Outback Stores (a joint venture with the Australian government providing indigenous Australians in small outback communities with retail facilities). He is a member of the Advisory Council of the Australian Graduate School of Management for the University of New South Wales. Mr. Corbett is also the Chairman of CIES Food Business Forum (France), the Salvation Army Advisory Committee, the Children s Hospital of Westmead Advisory Board, and Chairman of the Council and member of the Executive Committee of Shore School. Mr. Corbett has been a member of the Board since 2006.

Douglas N. Daft, 65

Mr. Daft is the retired Chairman and CEO of The Coca-Cola Company, a beverage manufacturer, where he served in that capacity from February 2000 until May 2004 and in various other capacities since 1969. Mr. Daft serves as a director of The McGraw Hill Companies, Inc. and Sistema-Hals. Mr. Daft has been a member of the Board since January 2005.

David D. Glass, 72

Mr. Glass is the former Chairman of the Executive Committee, serving in that position from February 2000 until June 2006. Mr. Glass served as Wal-Mart s President and CEO from January 1988 to January 2000. Mr. Glass has been a member of the Board since 1977.

Gregory B. Penner, 38 +

Mr. Penner has been a General Partner at Madrone Capital Partners, an investment management firm, since 2005. From 2002 to 2005, he served as Wal-Mart s Senior Vice President and Chief Financial Officer - Japan. Prior to working for Wal-Mart, Mr. Penner was a General Partner at Peninsula Capital, an early stage venture capital fund, and a financial analyst for Goldman, Sachs & Co. Mr. Penner is a member of the board of directors of Baidu.com, Inc., 99Bill Corporation, Cuill Inc., and Global Hyatt Corporation. Mr. Penner is standing for election to the Board for the first time.

Allen I. Questrom, 68

Mr. Questrom was the Chairman and CEO of J.C. Penney Corporation, Inc. from 2000 to December 2004. Between May 1999 and September 2000, Mr. Questrom served as Chairman, CEO and President of Barneys New York, Inc., a fashion retailer. Previously, Mr. Questrom was Chairman and CEO of The Neiman Marcus Group, Inc. and also has served as Chairman and CEO of Federated Department Stores, Inc. from January 1990 through April 1997. Mr. Questrom is a member of the board of directors of Sotheby s and is a senior adviser with Lee Equity Partners, LLC. Mr. Questrom has been a member of the Board since 2007.

H. Lee Scott, Jr., 59

Mr. Scott is the President and CEO of Wal-Mart and has served in that position since January 2000. Prior to this appointment, he held other positions with Wal-Mart since joining the Company in September 1979, including Vice Chairman and Chief Operating Officer from January 1999 to January 2000, and Executive Vice President and President and CEO, Wal-Mart Stores Division from January 1998 to January 1999. He has been a member of the Board since 1999.

Arne M. Sorenson, 49

Mr. Sorenson is the Executive Vice President and Chief Financial Officer of Marriott International, Inc., a position he has held since 1998. Since 2003, Mr. Sorenson has also held the additional title of President, Continental European Lodging. Mr. Sorenson joined Marriott in 1996 as Senior Vice President of Business Development. Prior to joining Marriott, he was a partner in the law firm of Latham & Watkins in Washington, D.C. Mr. Sorenson is standing for election to the Board for the first time.

Jim C. Walton, 59 *

Mr. Walton is the Chairman and CEO of Arvest Bank Group, Inc., a group of banks operating in the states of Arkansas, Kansas, Missouri, and Oklahoma. Mr. Walton also serves as Chairman of Community Publishers, Inc., which operates newspapers in Arkansas, Missouri, and Oklahoma. Mr. Walton has been a member of the Board since 2005.

S. Robson Walton, 63 * +

Mr. Walton is the Chairman of Wal-Mart and has been a member of the Board since 1978.

Christopher J. Williams, 50

Mr. Williams is the Chairman and CEO of The Williams Capital Group, L.P., an investment bank. Since 2003, he has also served as the Chairman and CEO of Williams Capital Management, LLC, an investment management firm. He also serves as a director of Harrah s Entertainment, Inc. Mr. Williams has been a member of the Board since 2004.

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Linda S. Wolf, 60

Ms. Wolf is the former Chairman and CEO of Leo Burnett Worldwide, Inc., an advertising agency and division of Publicis Groupe S.A. Ms. Wolf served in various positions with Leo Burnett Worldwide, Inc. and its predecessors from 1978 to April 2005. She serves as a trustee for investment funds advised by the Janus Capital Group Inc. and serves on the board of InnerWorkings, Inc. Ms. Wolf has been a member of the Board since 2005.

* S. Robson Walton and Jim C. Walton are brothers.

\+ Gregory B. Penner is the son-in-law of S. Robson Walton.

The Board recommends that the shareholders vote FOR all of the nominees named above for election to the Board.

DIRECTOR INDEPENDENCE

Pursuant to the NYSE s requirements for listed companies, Wal-Mart must have a majority of independent directors on its Board. In addition, the Audit Committee and the CNGC must be composed solely of independent directors. The NYSE Listed Company Manual defines specific relationships that disqualify directors from being independent under the NYSE s requirements and further requires that for a director to qualify as independent the Board must affirmatively determine that the director has no material relationship with Wal-Mart.

As permitted by the NYSE s requirements and policies, the Board has determined categorically that any relationship that is within one or more of the Categorical Standards described below will not be considered to be a material relationship that impairs a director s independence:

(1) the director, an entity with which a director is affiliated, or one or more members of the director s immediate family, purchased property or services from Wal-Mart in retail transactions on terms generally available to Associates during Wal-Mart s last fiscal year;

(2) the director or one or more members of the director s immediate family owns or has owned during the entity s last fiscal year, directly or indirectly, five percent or less of an entity that has a business relationship with Wal-Mart;

(3) the director or one or more members of the director s immediate family owns or has owned during the entity s last fiscal year, directly or indirectly, more than five percent of an entity that has a business relationship with Wal-Mart so long as the amount paid to or received from Wal-Mart during the entity s last fiscal year accounts for less than $1,000,000 or, if greater, less than one percent of the entity s consolidated gross revenues for that entity s last fiscal year;

(4) the director or one or more members of the director s immediate family is a director or trustee or was a director or trustee of an entity during the entity s last fiscal year that has a business or charitable relationship with Wal-Mart and that made payments to, or received payments from, Wal-Mart during the entity s last fiscal year in an amount representing less than $5,000,000 or, if greater, less than five percent of the entity s consolidated gross revenues for that entity s last fiscal year;

(5) Wal-Mart paid to, employed, or retained one or more members of the director s immediate family for compensation not exceeding $60,000 during Wal-Mart s last fiscal year;

(6) the director or a member of the director s immediate family is, or has been during the entity s last fiscal year, an executive officer or employee of an entity that made payments to, or received payments from, Wal-Mart during the entity s last fiscal year that account for less than $1,000,000 or, if greater, less than one percent of the entity s consolidated gross revenues for that entity s last fiscal year; or

(7) the director or one or more members of the director s immediate family received from Wal-Mart, during Wal-Mart s last fiscal year, personal benefits having an aggregate value of less than $5,000, other than as compensation for Board service.

In developing the Categorical Standards, the Board considered that: (1) directors (or their immediate family members) regularly purchase items at Wal-Mart s stores, Neighborhood Markets, and Sam s Clubs; (2) directors (or their immediate family members) may hold minor investments in companies that do business with Wal-Mart; (3) directors (or their immediate family members) may hold more than a minor investment in companies that do business with Wal-Mart, but the amount of business done with Wal-Mart is immaterial; (4) directors (or their immediate family members) may serve on the board of commercial or charitable entities with immaterial relationships with Wal-Mart; (5) directors may have immediate family members employed by Wal-Mart in positions earning $60,000 per year or less; (6) directors (or their immediate family members) may be officers or employees of companies that receive payments from Wal-Mart or its affiliates that account for less than $1,000,000 or, if greater, less than 1 percent of such company s consolidated gross revenues for its last fiscal year; and (7) that former officers who are directors (or their immediate family members) may continue to receive from Wal-Mart certain residual benefits from their service with Wal-Mart.

Our Board has determined that the following current directors nominated for reelection are independent directors under the independence standards set forth by the NYSE Listed Company Manual: Aida M. Alvarez; James W. Breyer; M. Michele Burns; James I. Cash, Jr.; Roger C. Corbett; Douglas N. Daft; Allen I. Questrom; Christopher J. Williams; and Linda S. Wolf. Furthermore, the Board determined that Arne M. Sorenson, a nominee for election as director who is not currently a director, is independent under the NYSE Listed Company Manual independence standards. The Board has also determined that Roland A. Hernandez and Jack C. Shewmaker, who are currently directors, but who will not stand for reelection at the 2008 Annual Shareholders Meeting, are independent under the NYSE Listed Company Manual independence standards.

In making these determinations, the Board found that the current Independent Directors who are standing for election and Mr. Sorenson do not have a material or other disqualifying relationship with Wal-Mart. The Board also found that Messrs. Hernandez and Shewmaker have not had since the commencement of fiscal 2008 any material or other disqualifying relationships with Wal-Mart. In making these determinations, the Board considered all transactions exceeding the Categorical Standards and any relationships and arrangements described below under Related-Party Transactions.

COMPENSATION OF THE DIRECTORS

Annual Director Compensation

The base compensation for Non-Management Directors upon their election to the Board on June 1, 2007 consisted of a Share award and an annual retainer. H. Lee Scott, Jr. and S. Robson Walton received compensation only for their services as Executive Officers of the Company and not in their capacities as directors.

Upon election to the Board at the 2007 Annual Shareholders Meeting on June 1, 2007, each Non-Management Director received an annual equity award of Shares with a market value of $140,000 on the date of grant for the Board term ending at the 2008 Annual Shareholders Meeting. This annual equity award was paid directly in Shares or deferred in stock units under the Director Compensation Plan, as elected by each Non-Management Director. In addition, each Non-Management Director elected to the Board at the 2007 Annual Shareholders Meeting was entitled to receive an annual retainer of $60,000, payable in arrears in equal quarterly installments for the Board term ending at the 2008 Annual Shareholders Meeting. This annual retainer could be taken in cash, Shares, deferred in stock units under the Director Compensation Plan, or deferred to an interest-credited account under the Director Compensation Plan, as elected by the director.

The Non-Management Director Board committee chairs also received a chair retainer for the additional time required for Board committee business. For the Board term commencing at the 2007 Annual Shareholders Meeting, the retainer for the Audit Committee chair was $25,000, the retainer for the CNGC chair was $15,000, and the retainer for the SPFC chair was $15,000. In addition, Christopher J. Williams received a retainer of $15,000 for his service on the Executive Committee because he serves on more than one Board committee. These additional retainers were payable in arrears in equal quarterly installments, and could be taken in cash, Shares, deferred in stock units under the Director Compensation Plan, or deferred in an interest-credited account under the Director Compensation Plan, as elected by the director.

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Pursuant to the CNGC charter, director compensation for the Non-Management Directors is reviewed annually by the CNGC, which recommends to the Board the annual compensation for those directors. The compensation paid to the Directors during fiscal 2008 is described in the table below.

DIRECTOR COMPENSATION FOR FISCAL 2008 (1)

Director	Fees Earned or Paid in Cash ($) (2)	Stock Awards ($) (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (4)	All Other Compensation ($) (5)	Total ($)
Aida M. Alvarez	60,000	140,000	0	8,156	208,156
James W. Breyer	75,000	140,000	0	0	215,000
M. Michele Burns	66,264	140,000	4,712	0	210,976
James I. Cash, Jr.	60,000	140,000	0	31,221	231,221
Roger C. Corbett	60,000	140,000	0	27,285	227,285
Douglas N. Daft	60,000	140,000	2,575	8,606	211,181
David D. Glass	60,000	140,000	593	0	200,593
Roland A. Hernandez	85,000	140,000	630	0	225,630
Allen I. Questrom	34,945	140,000	0	307	175,252
Jack C. Shewmaker	60,000	140,000	0	7,369	207,369
Jim C. Walton	60,000	140,000	0	1,377	201,377
Christopher J. Williams	75,000	140,000	0	7,732	222,732
Linda S. Wolf	68,736	140,000	0	7,366	216,102

(1) The table omits the columns for Option Awards and Non-Equity Incentive Plan Compensation because the Company neither issues stock options to Non-Management Directors nor provides non-equity incentive compensation for Non-Management Directors. H. Lee Scott, Jr. and S. Robson Walton are omitted from this table because they received compensation only as Executive Officers of the Company and did not receive any additional compensation for their duties as directors. The compensation for Mr. Scott is disclosed in the Summary Compensation table below. Mr. Walton s annual compensation is $200,000. During fiscal 2008, the Company also contributed health insurance premiums and Profit Sharing/401(k) Plan contributions for Mr. Walton on the same basis as for other Associates in the amounts of $5,022 and $8,368, respectively.

(2) This column represents the annual retainer paid to directors and the Board committee chair retainers. Allen I. Questrom was first elected to the Board on June 1, 2007 and, therefore, received fees for service as a director for only a portion of fiscal 2008. The following amounts included in this column were deferred under the Director Compensation Plan:

Director	Fiscal 2008 ($)
M. Michele Burns	66,264

Douglas N. Daft	60,000
David D. Glass	60,000
Roland A. Hernandez	85,000
Allen I. Questrom	34,945

(3) The number of Shares granted to each director was based on a Share price of $49.47, which was the closing price of a Share on the NYSE on the grant date of June 1, 2007.

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The following directors held outstanding stock options at the end of fiscal 2008, as shown below. These options were issued in previous fiscal years as part of the compensation paid to these directors:

Director	Options Outstanding as of January 31, 2008
James W. Breyer	5,512
Roland A. Hernandez	14,946
Jack C. Shewmaker	14,946

(4) The amounts in this column represent above-market interest earned on director compensation deferred to an interest-credited account under the Director Compensation Plan, as elected by the director. The interest rate on the interest bearing account is set by the Director Compensation Plan based on the ten-year Treasury note rate on the first day of January plus 2.70 percent. This rate was 7.36 percent for the calendar year ended December 31, 2007, and decreased to 6.61 percent for calendar year ending December 31, 2008.

(5) This column includes tax gross-ups paid for fiscal 2008 relating to income attributable to spousal travel expenses, meals, and related activities in connection with certain Board meetings. For Dr. Cash and Mr. Corbett, this column also includes the value of the related spousal travel expenses, meals, and related activities, none of which exceeded $25,000. For each of the other Non-Management Directors, the value of the related spousal travel expenses, meals and related activities is not included in this column because the total value was less than $10,000.

Director Stock Ownership Guidelines

On June 5, 2003, the Board adopted stock ownership guidelines for the Non-Management Directors. Each Non-Management Director must own, within five years of his or her initial election or appointment to the Board, an amount of Shares, restricted stock, or stock units having a value equal to five times the annual retainer component of the Non-Management Director s compensation approved by the Board in the year the director was initially elected or appointed. Non-Management Directors who began serving prior to June 5, 2003, are required to own, no later than June 5, 2008, $300,000 worth of Shares, restricted stock, or stock units. All directors who will be subject to these guidelines as of June 5, 2008 currently own enough Shares to satisfy the guidelines.

BOARD MEETINGS

The Board held a total of six meetings (four regular meetings and two telephonic meetings) during fiscal 2008 to review significant developments affecting the Company, engage in strategic planning, and act on matters requiring Board approval. During fiscal 2008, each director attended at least 75 percent of the aggregate of the number of Board meetings and the number of meetings of Board committees on which he or she served. The Non-Management Directors and Independent Directors meet regularly in executive sessions.

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BOARD COMMITTEES

Committee	Members during Fiscal 2008	Functions and Additional Information	Number of Meetings in Fiscal 2008
Audit Committee	Aida M. Alvarez (1) James I. Cash, Jr. Roland A. Hernandez (2)(6) Christopher J. Williams	Reviews financial reporting, policies, procedures, and internal controls of Wal-Mart Responsible for the appointment, compensation, and oversight of the independent accountants Pre-approves audit, audit-related, and non-audit services to be performed by the Company s independent accountants Reviews related-party transactions Reviews the Company s policies, processes, and procedures regarding compliance with applicable laws and regulations and the statements of ethics The Board has determined that the members are independent as defined by Section 10A(m)(3) of the Exchange Act and the NYSE Listed Company Manual	15
Compensation, Nominating and Governance Committee	M. Michele Burns (3) Douglas N. Daft Linda S. Wolf (2) Allen I. Questrom (4)	In consultation with the CEO, approves the total compensation of the Executive Officers other than the CEO Reviews and approves the total compensation of the CEO and Chairman Reviews and makes recommendations to the Board regarding the compensation of the Non-Management Directors Sets the interest rates applicable to the Deferred Compensation Plan Sets and verifies the attainment of performance goals under performance-based plans Reviews salary and benefits issues for the Company Reviews and provides guidance regarding the Company s reputation Oversees corporate governance issues Identifies, evaluates, and recommends candidates to the Board for nomination for election or appointment to the Board Reviews and makes recommendations to the Board regarding director independence The Board has determined that the members are independent under the NYSE Listed Company Manual	9
Executive Committee	H. Lee Scott, Jr. (2) S. Robson Walton	Implements policy decisions of the Board Acts on the Board s behalf between Board meetings	1 (5)

Stock Option Committee	Christopher J. Williams H. Lee Scott, Jr. (2) S. Robson Walton	Administers Wal-Mart s equity compensation plans for Associates who are not directors or Executive Officers	1
Strategic Planning and Finance Committee	Aida M. Alvarez (1) James W. Breyer (2) M. Michele Burns (3) Roger C. Corbett David D. Glass Jack C. Shewmaker (6) Jim C. Walton	Reviews and analyzes financial matters Oversees long-range strategic planning Reviews and recommends a dividend policy to the Board Reviews and recommends the annual budget to the Board	4

(1) Ms. Alvarez served on the SPFC until June 1, 2007, at which time she was appointed to the Audit Committee.
(2) Committee chair.
(3) Ms. Burns served on the CNGC until June 1, 2007, at which time she was appointed to the SPFC.
(4) Mr. Questrom was appointed to the CNGC effective June 1, 2007.
(5) The Executive Committee acted by unanimous written consent 22 times during fiscal 2008.
(6) Not standing for re-election to the Board at the 2008 Annual Shareholders Meeting.

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CORPORATE GOVERNANCE

BOARD AND COMMITTEE GOVERNING DOCUMENTS

The Board has adopted Corporate Governance Guidelines and charters for the Audit Committee, the CNGC, the Executive Committee, the SOC, and the SPFC. You may review each of these documents on our corporate website at www.walmartstores.com by clicking on Investors and then Corporate Governance. In addition, these documents are available in print at no charge to any shareholder who requests a copy from our Investor Relations Department by submitting a request through the Investors page of our website or by writing to our Investor Relations Department at: Wal-Mart Stores, Inc., Investor Relations Department, 702 Southwest 8th Street, Bentonville, Arkansas 72716-0100.

COMMUNICATIONS WITH THE BOARD

The Board welcomes communications from shareholders and other interested parties. Shareholders and other interested parties may write to the Board at:

Wal-Mart Stores, Inc. Board of Directors

c/o J. Michael Bradshaw, Senior Liaison to the Board of Directors

702 Southwest 8th Street

Bentonville, Arkansas 72716-0215

Shareholders and other interested parties also may e-mail: the Board at directors@wal-mart.com, the Independent Directors at independentdirectors@wal-mart.com; the Non-Management Directors at nonmanagementdirectors@wal-mart.com; and any individual director, including the presiding director, at the full name of the director as listed in this proxy statement followed by @wal-mart.com. For example, shareholders may e-mail S. Robson Walton, Chairman, by e-mailing srobsonwalton@wal-mart.com.

A company of our size receives a large number of inquiries regarding a wide range of subjects each day. As a result, the Independent Directors, Non-Management Directors, and individual directors are not able to respond to all inquiries directly. Therefore, our directors, in consultation with Wal-Mart, have developed a process to assist in managing inquiries directed to the Board.

Letters and e-mails directed to the Board, the Independent Directors, the Non-Management Directors, and individual directors are reviewed by Wal-Mart to determine whether a response on behalf of the Board is appropriate. While the Board oversees management, it does not participate in day-to-day management functions or business operations and is not normally in the best position to respond to inquiries relating to those matters. Thus, we will direct those types of inquiries to the appropriate Associate for a response. Responses to letters and e-mails by Wal-Mart on behalf of the Board, Independent Directors, Non-Management Directors, or individual directors are maintained by Wal-Mart and are available for any director s review.

If a response on behalf of the Board, Independent Directors, Non-Management Directors, or individual directors is appropriate, Wal-Mart gathers any information and documentation necessary for answering the inquiry and provides the information and documentation, as well as a proposed response, to the appropriate director. Wal-Mart also may attempt to communicate with the shareholder or interested party for any necessary clarification. S. Robson Walton, Wal-Mart s Chairman, reviews and approves responses on behalf of the Board, and James W. Breyer, Wal-Mart s presiding director, reviews and approves the responses on behalf of the Independent Directors and Non-Management Directors. In certain situations, Mr. Walton or Mr. Breyer may respond directly to a shareholder s inquiry.

For inquiries forwarded to individual directors, each director has provided instructions for responding to those inquiries. Currently, all directors have requested that Wal-Mart review letters and e-mails, gather any information or documentation necessary to respond to the inquiry, and propose a response. The director will review the proposed response and either direct Wal-Mart to send such response on behalf of the director, or the director may choose to respond directly to the shareholder.

Certain circumstances may require that the Board depart from the procedures described above, such as the receipt of threatening letters or e-mails or voluminous inquiries with respect to the same subject matter. The Board, nevertheless, does consider shareholder questions and comments important and endeavors to respond promptly and appropriately.

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PRESIDING DIRECTOR

James W. Breyer currently serves as the presiding director of executive sessions of the Non-Management Directors and Independent Directors.

NOMINATION PROCESS FOR DIRECTOR CANDIDATES

The CNGC is, among other things, responsible for identifying and evaluating potential candidates and recommending candidates to the Board for nomination for election to the Board. The CNGC is governed by a written charter, a copy of which can be found in the Corporate Governance section of the Investors page of our corporate website at www.walmartstores.com.

The CNGC regularly reviews the composition of the Board and the Board committees and considers whether the addition of directors with particular experiences, skills, or characteristics would make the Board and one or more Board committees more effective. When a need arises to fill a vacancy or it is determined that a director candidate possessing particular experiences, skills, or characteristics would make the Board more effective, the CNGC initiates a search. As a part of the search process, the CNGC may consult with other directors and senior officers and may hire a search firm to assist in identifying and evaluating potential candidates.

SpencerStuart serves as the Company s director candidate search consultant. In that capacity, SpencerStuart seeks out candidates who have the experiences, skills, and characteristics that the CNGC has determined are necessary to serve as a member of the Board. SpencerStuart researches the background of all candidates, conducts extensive interviews with candidates and their references, and then presents the most qualified candidates to the CNGC and the Company s management.

When considering a candidate, the CNGC reviews the candidate s experiences, skills, and characteristics. The Committee also considers whether a potential candidate will otherwise qualify for membership on the Board, and whether the potential candidate would likely satisfy the independence requirements of the NYSE.

Candidates are selected on the basis of outstanding achievement in their professional careers; broad experience; wisdom; personal and professional integrity; their ability to make independent, analytical inquiries; and their experience with and understanding of the business environment. With respect to the minimum experiences, skills, or characteristics necessary to serve on the Board, the CNGC will only consider candidates who:

(1) have the experiences, skills, and characteristics necessary to gain a basic understanding of:

- the principal operational and financial objectives and plans of the Company;
- the results of operations and financial condition of our Company and its business segments; and
- the relative standing of our Company and its business segments in relation to our competitors;

(2) have a perspective that will enhance the Board s strategic discussions; and

(3) are capable of and committed to devoting adequate time to Board duties and are available to attend the regularly-scheduled Board and Board committee meetings.

In addition, at least a majority of the Board must be independent as determined by the Board under the guidelines of the NYSE Listed Company Manual, and at least one member of the Board should have the qualifications and skills necessary to be considered an Audit Committee Financial Expert as that term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC.

Potential candidates are generally interviewed by our Chairman, our CEO, and the chair of the CNGC, and may be interviewed by other directors and senior officers as desired and as schedules permit. The CNGC then meets to consider and approve the final candidates, and either makes its recommendation to the Board to fill a vacancy or add an additional member, or recommends to the Board a slate of candidates for nomination for election to the Board. The selection process for candidates is intended to be flexible, and the CNGC, in the exercise of its discretion, may deviate from the selection process when particular circumstances warrant a different approach.

Director nominees Gregory B. Penner and Arne M. Sorenson do not currently serve on the Board. Messrs. Penner and Sorenson have been nominated for election to the Board at the 2008 Annual Shareholders Meeting and were recommended to the CNGC by our Chairman, our CEO, certain Non-Management Directors, and other Executive Officers.

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S. Robson Walton and Jim C. Walton are members of a group that beneficially owns more than five percent of the outstanding Shares. Any participation by them in the nomination process was considered to be in their capacities as members of the Board and not as recommendations from security holders that beneficially own more than five percent of the outstanding Shares.

Shareholders may recommend candidates to the Board by writing to:

Wal-Mart Stores, Inc. Board of Directors

c/o J. Michael Bradshaw, Senior Liaison to the Board of Directors

702 Southwest 8th Street

Bentonville, Arkansas 72716-0215

The recommendation must include the following information:

(1) the candidate s name and business address;

(2) a resume or curriculum vitae describing the candidate s qualifications, which clearly indicates that he or she has the minimum experiences, skills, and qualifications that the CNGC has determined are necessary to serve as a director;

(3) a statement as to whether or not, during the past ten years, the candidate has been convicted in a criminal proceeding (excluding minor traffic violations) and, if so, the dates, the nature of the conviction, the name or other disposition of the case, and whether the individual has been involved in any other legal proceeding during the past five years;

(4) a statement from the candidate that he or she consents to serve on the Board if elected; and

(5) a statement from the person submitting the candidate that he or she is the registered holder of Shares, or if the shareholder is not the registered holder, a written statement from the record holder of the Shares (usually a broker or bank) verifying that at the time the shareholder submitted the candidate that he or she was a beneficial owner of Shares.

All candidates recommended to the Board for nomination by a shareholder pursuant to the requirements above will be submitted to the CNGC for its review, which may include an analysis of the candidate s qualifications prepared by the Company s management.

AUDIT COMMITTEE REPORT

The Audit Committee consists of four directors, each of whom has been determined by the Board to be independent as defined by the current listing standards of the NYSE and the applicable rules of the SEC. The members of the Audit Committee are Aida M. Alvarez; James I. Cash, Jr.; Roland A. Hernandez, the chair of the Audit Committee; and Christopher J. Williams. Ms. Alvarez was appointed to the Audit Committee effective June 1, 2007. The Audit Committee is governed by a written charter adopted by the Board. A copy of the current Audit Committee charter is available in the Corporate Governance section of the Investors page of our corporate website at www.walmartstores.com. In addition, the Audit Committee charter is available in print at no charge to any shareholder who requests a copy from our Investor Relations department by submitting a request through the Investors page of our website or by writing to our Investor Relations department at: Wal-Mart Stores, Inc., Investor Relations Department, 702 Southwest 8th Street, Bentonville, Arkansas 72716-0100.

Wal-Mart s management is responsible for Wal-Mart s internal control over financial reporting, including the preparation of Wal-Mart s consolidated financial statements. Wal-Mart s independent accountants are responsible for auditing Wal-Mart s annual consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board. The independent accountants are also responsible for issuing a report on those financial statements and a report on Wal-Mart s internal control over financial reporting. The Audit

Committee monitors and oversees these processes. The Audit Committee is responsible for selecting, engaging, and overseeing Wal-Mart s independent accountants.

As part of the oversight processes, the Audit Committee regularly meets with management of the Company, the Company s independent accountants, and the Company s internal auditors. The Audit Committee often meets with each of these groups separately in closed sessions. Throughout the year, the Audit Committee had full access to management and the independent accountants and internal auditors for the Company. To fulfill its responsibilities, the Audit Committee did, among other things, the following:

reviewed and discussed with Wal-Mart s management and the independent accountants Wal-Mart s audited consolidated financial statements for fiscal 2008;

reviewed management s representations that those consolidated financial statements were prepared in accordance with generally accepted accounting principles and fairly present the results of operations and financial position of the Company;

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discussed with the independent accountants the matters required by Statement on Auditing Standards 61, as modified or supplemented, and SEC rules, including matters related to the conduct of the audit of Wal-Mart s consolidated financial statements;

received written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 relating to E&Y s independence from Wal-Mart and discussed with E&Y its independence from Wal-Mart;

based on the discussions with management and the independent accountants, the independent accountants disclosures and letter to the Audit Committee, the representations of management and the reports of the independent accountants, recommended to the Board that Wal-Mart s audited annual consolidated financial statements for fiscal 2008 be included in Wal-Mart s Annual Report on Form 10-K for the fiscal year ended January 31, 2008 filed with the SEC;

reviewed all audit and non-audit services performed for Wal-Mart by E&Y and considered whether E&Y s provision of non-audit services was compatible with maintaining its independence from Wal-Mart;

selected and engaged E&Y as Wal-Mart s independent accountants to audit and report on the annual consolidated financial statements of Wal-Mart to be filed with the SEC prior to Wal-Mart s annual shareholders meeting to be held in calendar year 2009;

monitored the progress and results of the testing of internal controls over financial reporting pursuant to Section 404 of SOX, reviewed a report from management and internal audit regarding the design, operation and effectiveness of internal controls over financial reporting, and reviewed an attestation report from E&Y regarding the effectiveness of internal controls over financial reporting; and

received reports from management regarding the Company s policies, processes, and procedures regarding compliance with applicable laws and regulations and the Statement of Ethics, all in accordance with the Audit Committee s charter.

The Audit Committee submits this report:

Aida M. Alvarez

James I. Cash, Jr.

Roland A. Hernandez, Chair

Christopher J. Williams

AUDIT COMMITTEE FINANCIAL EXPERTS

The Board has determined that James I. Cash, Jr.; Roland A. Hernandez; and Christopher J. Williams are Audit Committee Financial Experts as that term is defined in Item 407(d)(5)(ii) of Regulation S-K, promulgated by the SEC, and are independent under Section 10A(m)(3) of the Exchange Act and the requirements set forth in the NYSE Listed Company Manual.

AUDIT COMMITTEE SERVICE

Roland A. Hernandez, who is the chair of the Audit Committee, currently serves on the audit committees of three other public companies and serves as the chairman of one such other public company s audit committee. The Board has determined that such service does not impair the ability of Mr. Hernandez to serve effectively on the Audit Committee.

AUDIT COMMITTEE PRE-APPROVAL POLICY

To ensure the independence of our Company s independent accountants and to comply with applicable securities laws, NYSE listing standards, and the Audit Committee charter, the Audit Committee is responsible for reviewing, deliberating and, if appropriate, pre-approving all audit, audit-related, and non-audit services to be performed by the independent accountants. For that purpose, the Audit Committee has established a policy and related procedures regarding the pre-approval of all audit, audit-related, and non-audit services to be performed by our Company s independent accountants (the Pre-Approval Policy).

The Pre-Approval Policy provides that our Company s independent accountants may not perform any audit, audit-related, or non-audit service for Wal-Mart, subject to those exceptions that may be permitted by applicable law, unless: (1) the service has been pre-approved by the Audit Committee; or (2) Wal-Mart engaged the independent accountants to perform the service pursuant to the pre-approval provisions of the Pre-Approval Policy. In addition, the Pre-Approval Policy prohibits the Audit Committee from pre-approving certain non-audit services that are prohibited from being performed by the Company s independent accountants by applicable securities laws. The Pre-Approval Policy also provides that Wal-Mart s corporate controller will periodically update the Audit Committee as to services provided by the independent accountants. With respect to each such service, the independent accountants provide detailed back-up documentation to the Audit Committee and to the corporate controller.

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Pursuant to its Pre-Approval Policy, the Audit Committee has pre-approved certain categories of services to be performed by the independent accountants and a maximum amount of fees for each category. The Audit Committee annually re-assesses these service categories and the associated fees. Individual projects within the approved service categories have been pre-approved only to the extent that the fees for each individual project do not exceed a specified dollar limit, which amount is re-assessed annually. Projects within a pre-approved service category with fees in excess of the specified fee limit for individual projects may not proceed without the specific prior approval of the Audit Committee (or a member to whom pre-approval authority has been delegated). In addition, no project within a pre-approved service category will be considered to have been pre-approved by the Audit Committee if the project causes the maximum amount of fees for the service category to be exceeded, and the project may only proceed with the prior approval of the Audit Committee (or a member to whom pre-approval authority has been delegated) to increase the aggregate amount of fees for the service category.

At least annually, the Audit Committee designates a member of the Audit Committee to whom it delegates its pre-approval responsibilities. That member has the authority to approve interim requests as set forth above within the defined, pre-approved service categories, as well as interim requests to engage Wal-Mart s independent accountants for services outside the Audit Committee s pre-approved service categories. The member has the authority to pre-approve any audit, audit-related, or non-audit service that falls outside the pre-approved service categories, provided that the member determines that the service would not compromise the independent accountants independence and the member informs the Audit Committee of his or her decision at the Audit Committee s next regular meeting.

COMPENSATION, NOMINATING AND GOVERNANCE COMMITTEE

The CNGC is charged with discharging the Board s responsibilities relating to the compensation of the Company s directors, Executive Officers, and Associates. With respect to its compensation functions, the CNGC is responsible, pursuant to its charter, for annually:

- reviewing and approving corporate goals and objectives relevant to the compensation of our CEO, Chairman, and any other Executive Officers who are directors; evaluating their performance in light of those goals and objectives; and, based on this evaluation, establishing their total compensation;
- evaluating and approving, in consultation with our CEO, the compensation of Executive Officers who are not directors; and
- reviewing the compensation of certain other senior officers of Wal-Mart.

The CNGC may delegate its functions to a subcommittee, to the extent such delegation is consistent with the NYSE Listed Company Manual and applicable laws and regulations. However, the CNGC may not delegate its authority over the evaluation and approval of Executive Officer compensation. The CNGC met 9 times in fiscal 2008. Meeting agendas are determined in consultation with the chair of the CNGC.

COMPENSATION COMMITTEE REPORT

The CNGC has reviewed and discussed with the Company s management the CD&A included in this proxy statement and, based on such review and discussions, the CNGC recommended to the Board that the CD&A be included in this proxy statement.

The CNGC submits this report:

Douglas N. Daft

Allen I. Questrom

Linda S. Wolf, Chair

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members who served on the CNGC at any time during fiscal 2008 were officers or Associates of Wal-Mart or were formerly officers of Wal-Mart. Except for M. Michele Burns, who served on the CNGC until the 2007 Annual Shareholders Meeting on June 1, 2007, none of the members who served on the CNGC at any time during fiscal 2008 had any relationship with the Company requiring disclosure under the section of this proxy statement entitled Related-Party Transactions. Finally, no Executive Officer serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on Wal-Mart s Board or the CNGC.

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TRANSACTION REVIEW POLICY

The Board has adopted a written policy (the Transaction Review Policy) applicable to all Wal-Mart officers who are Executive Vice Presidents or above; to all directors and director nominees; to all shareholders beneficially owning more than five percent of Wal-Mart s Shares; and to the immediate family members of each of the preceding persons (collectively, the Covered Persons). Any entity in which a Covered Person has a direct or indirect material financial interest or of which a Covered Person is an officer or holds a significant management position (each a Covered Entity) is also covered by the policy. The Transaction Review Policy applies to any transaction or series of similar or related transactions in which a Covered Person or Covered Entity has a direct or indirect material financial interest in which the Company is a participant (each a Covered Transaction).

Under the Transaction Review Policy, each Covered Person is responsible for reporting to Wal-Mart s Chief Audit Executive any Covered Transactions of which he or she has knowledge. Our Chief Audit Executive, with the assistance of other appropriate Company personnel, reviews each Covered Transaction and submits the results of such review to the Audit Committee. The Audit Committee reviews each Covered Transaction and either approves or disapproves the transaction. To approve a Covered Transaction, the Audit Committee must find that:

- the substantive terms and negotiation of the transaction are fair to Wal-Mart and its shareholders and the substantive terms are no less favorable to Wal-Mart and its shareholders than those in similar transactions negotiated at an arm s length basis; and

- if the Covered Person is a director or officer of Wal-Mart, he or she has otherwise complied with the terms of Wal-Mart s Statement of Ethics as it applies to the transaction.

In addition, on an annual basis and as requested, the Chief Audit Executive provides a summary of all reported Covered Transactions to the Audit Committee.

The Audit Committee may also ratify a Covered Transaction if prior approval and review is not sought if the Audit Committee determines that the transaction meets the criteria above and the failure to obtain pre-approval was unintentional, inadvertent, or due to a lack of knowledge.

The following categories of transactions are exempt from review and approval under the Transaction Review Policy:

- transactions that involve a monetary value of less than $120,000;

- transactions that result from a competitive bid process;

- ordinary banking transactions; and

- any series of substantially similar transactions after the Audit Committee has reviewed and approved a single transaction of that type as meeting the requirements of the policy.

CODE OF ETHICS FOR THE CEO AND SENIOR FINANCIAL OFFICERS

You may review Wal-Mart s Code of Ethics for the CEO and Senior Financial Officers in the Corporate Governance section of the Investors page of our corporate website at www.walmartstores.com. Wal-Mart s Code of Ethics for the CEO and Senior Financial Officers supplements Wal-Mart s Statement of Ethics, which is applicable to all directors, Executive Officers, and Associates and is also available in the Corporate Governance section of the Investors page of our corporate website. A description of any substantive amendment or waiver of Wal-Mart s Code of Ethics for the CEO and Senior Financial Officers or Wal-Mart s Statement of Ethics will be disclosed in the Corporate Governance section of the Investors page of our corporate website at www.walmartstores.com for a period of 12 months after the amendment or waiver. Copies of Wal-Mart s Code of Ethics for the CEO and Senior Financial Officers and of Wal-Mart s Statement of Ethics are also available in print at no charge to any shareholder who requests a copy from our Investor Relations department by submitting a request through the Investors page of our website or by writing to the Investor Relations Department at: Wal-Mart Stores, Inc., Investor Relations Department, 702 Southwest 8th Street, Bentonville, Arkansas 72716-0100.

BOARD ATTENDANCE AT ANNUAL SHAREHOLDERS MEETINGS

The Board has adopted a policy stating that all directors are expected to attend annual shareholders meetings. While the Board understands that there may be situations that prevent a director from attending an annual shareholders meeting, the Board strongly encourages all directors to make attendance at all annual shareholders meetings a priority. All directors nominated by the Board for election to the Board in 2007 attended the 2007 Annual Shareholders Meeting.

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SUBMISSION OF SHAREHOLDER PROPOSALS

If you want to present a proposal for possible inclusion in our 2009 proxy statement pursuant to the SEC s rules, send the proposal to Gordon Y. Allison, Vice President and General Counsel, Corporate Division, 702 Southwest 8th Street, Bentonville, Arkansas 72716-0215, by registered, certified, or express mail. Shareholder proposals for inclusion in our proxy statement for the 2009 Annual Shareholders Meeting must be received on or before December 23, 2008.

Shareholders who want to bring business before the 2009 Annual Shareholders Meeting other than through a shareholder proposal pursuant to the SEC s rules must notify the Corporate Secretary of the Company in writing and provide the information required by the provision of the Bylaws dealing with shareholder proposals. The notice must be delivered to or mailed and received at Wal-Mart s principal executive offices not less than 75 nor more than 100 days prior to the date of the 2009 Annual Shareholders Meeting, unless less than 85 days notice or public disclosure of that date is given or made, in which case the shareholder s notice must be received by the close of business on the tenth day after the notice or public disclosure of the date of the 2009 Annual Shareholders Meeting is made or given. The requirements for such notice are set forth in the Bylaws, a copy of which can be found in the Corporate Governance section of the Investors page of our corporate website at www.walmartstores.com. In addition, the Bylaws were filed as an exhibit to the Company s Current Report on Form 8-K dated September 25, 2006.

OTHER MATTERS

The Company is not aware of any matters that will be considered at the 2008 Annual Shareholders Meeting other than the matters described herein. If any other matters are properly brought before the 2008 Annual Shareholders Meeting, the proxy holders will vote the Shares as to which they hold proxies in their discretion.

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EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Overview

In the following pages, we discuss how our CEO, CFO, and three other most highly compensated Executive Officers (our Named Executive Officers or NEOs) were compensated in fiscal 2008, and describe how this compensation fits within our executive compensation philosophy. We also describe certain changes to our executive compensation programs for fiscal 2009.

Under our company s leadership team, our company performed well in fiscal 2008, with record sales and earnings, despite the fact that our customers faced higher energy prices and other economic challenges, particularly in the U.S. In this environment, our company emphasized price leadership, better inventory management and operational improvements. We also focused on customer service and enhancing our customer s experience in our stores and clubs. In addition, we undertook groundbreaking initiatives in healthcare, such as expanding our $4 prescription program, and we advanced our sustainability efforts by building energy efficient stores and reducing packaging in the products we sell. Our company also returned more than $11 billion to our shareholders in the form of share repurchases and dividends. Our stock price increased moderately during fiscal 2008. These accomplishments and other criteria were considered by the CNGC when establishing the compensation of our NEOs.

Our Compensation Program Emphasizes Performance

We design our NEO compensation with an emphasis on performance. Base salary typically comprises less than 15 percent of each NEO s total annual compensation opportunity, and a substantial majority of each NEO s annual compensation is performance-based in ways that we believe relate meaningfully to shareholder value. For fiscal 2008, the performance-based portion of NEO compensation consisted of performance shares and a cash incentive opportunity, and was contingent on meeting certain goals for pre-tax profit growth, diversity, return on investment, and total company revenue growth. For fiscal 2008, our NEOs did not receive any payout for performance shares, but did receive a cash incentive payment.

Our company does not maintain a defined benefit pension plan for our NEOs. All of our NEOs are employed on an at will basis.

Compensation Established by a Committee of Independent Directors

The CNGC oversees the programs used to determine our executives compensation. These compensation programs are designed to provide our NEOs with compensation that is fair and competitive in light of individual job responsibilities, individual performance, and contributions to our overall performance.

In early 2007, the CNGC retained Watson Wyatt & Company (Watson Wyatt) as its independent consultant to advise the CNGC on executive compensation matters. Watson Wyatt reports directly and exclusively to the CNGC, and the CNGC has sole authority to retain, terminate, and approve the fees of Watson Wyatt. Under the terms of this engagement, Watson Wyatt may not be engaged to provide any additional consulting services to our company without the approval of the CNGC. Watson Wyatt advised the CNGC regarding the compensation of our NEOs for fiscal 2008 and 2009 and regarding changes to our compensation programs for fiscal 2009.

In view of the size and complexity of our company, the CNGC reviewed data from three different peer groups to determine how our NEOs compensation compared to the compensation paid to executives at other companies. Because our company is significantly larger than most companies in our peer groups, our CNGC generally sets compensation so that our NEOs have the opportunity to earn total compensation in the top quartile of the total compensation earned by executive officers who hold comparable positions in each of our peer groups. In addition, when establishing NEO compensation, the CNGC considered the nature of each NEO s responsibilities and experience, the need to retain and motivate our executives, and each NEO s contributions to our overall performance and, where applicable, to the performance of each NEO s operating division.

Changes for Fiscal 2009 to Further Emphasize Pay for Performance

Between September 2007 and March 2008, the CNGC undertook a full review of our compensation programs for NEOs and other members of management. As a result of this review, the CNGC approved changes to our executive compensation program for

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fiscal 2009 in an effort to more closely tie executive compensation to measures of our performance that can be influenced by our executives and that we believe are likely to impact shareholder value. For fiscal 2009, 75% of the target value of annual equity awards is subject to performance goals, up from two-thirds in fiscal 2008. The CNGC also reviewed the performance metrics used in our executive compensation program to ensure that the metrics used are metrics that the CNGC believes are likely to drive shareholder value. As a result of this review, beginning in fiscal 2009, in addition to the existing return on investment and pre-tax profit metrics, a portion of each NEO s compensation will be based on our domestic comparable store sales and/or international revenue growth, depending on each NEO s role with our company.

Executive Compensation Overview

Who are our NEOs?

For fiscal 2008, our NEOs were:

- H. Lee Scott, Jr., our President and CEO since 2000. Mr. Scott joined our company in 1979.
- Thomas M. Schoewe, our Executive Vice President and CFO. Mr. Schoewe joined our company in 2000.
- John B. Menzer, our Vice Chairman and Chief Administrative Officer. Mr. Menzer joined our company in 1995. Mr. Menzer retired on March 1, 2008.
- Michael T. Duke, our Vice Chairman, International Division. Mr. Duke joined our company in 1995.
- Eduardo Castro-Wright, our Executive Vice President and President and Chief Executive Officer, Wal-Mart Stores Division. Mr. Castro-Wright joined our company in 2001.

What are the primary components of our executive compensation program?

The annual compensation of our NEOs consists of three main components:

- base salary;
- a performance-based annual cash incentive payment; and
- annual equity-based compensation, including a performance-based award.

For purposes of setting NEO compensation, the CNGC considers the amount that each NEO could earn from these three components, assuming maximum performance goals are achieved and all time-vesting equity awards vest, as that NEO s total direct compensation, or TDC. We discuss each of these components of TDC in greater detail below.

Our NEOs also receive other benefits generally available to our Associates, such as participation in our Profit Sharing/401(k) Plan, our Stock Purchase Plan, and other plans available to our officers, such as our Deferred Compensation Plan. Our NEOs also receive certain perquisites and supplemental benefits.

Fiscal 2008 Compensation

What was the TDC for each of our NEOs in fiscal 2007 and fiscal 2008, respectively?

When setting NEO compensation, the CNGC established a TDC amount for each NEO and then allocated that TDC among the various components of compensation. TDC represents the compensation opportunity available to an NEO for a given fiscal year if maximum performance goals are achieved. As such, TDC is designed to represent the amounts that our NEOs will receive only in the event of exceptional performance.

The Summary Compensation table that appears on page 34 provides specific compensation information for fiscal 2007 and fiscal 2008 for each of our NEOs in the manner required by SEC regulations. The amounts in the Summary Compensation table do not reflect the compensation opportunities approved by the CNGC, nor do they necessarily provide insight into the compensation actually earned by each NEO upon satisfaction of applicable performance conditions. For example, the CNGC views an equity award as part of the TDC for the fiscal year for which it is granted. The Summary Compensation table, however, requires us to report stock-based compensation based on the amounts expensed for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), so that the expense relating to portions of an equity award granted to one of our NEOs generally will appear on the Summary Compensation table over a period of years.

The following table shows the TDC established for each NEO for fiscal 2007 and 2008. Inclusion of this information is not designed to replace the Summary Compensation table, but rather to provide insight into the CNGC s decision-making process when establishing NEO compensation.

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TDC, for purposes of the table below, is defined as the sum of:

- base salary;
- maximum potential annual cash incentive payout; and
- estimated grant date value of annual equity awards, assuming maximum performance goals are satisfied.

Because TDC is established through a benchmarking process, as described below, TDC does not include any one-time or special awards, as these types of awards are generally not reflected in the benchmarking data that is available for our peer group companies.

Name and Principal Position	Fiscal 2007 Maximum TDC ($)	Fiscal 2008 Maximum TDC ($)
H. Lee Scott, Jr., President and CEO	31,835,000	32,365,000
Thomas M. Schoewe, Executive Vice President and CFO	6,915,000	7,020,000
John B. Menzer, Vice Chairman, Chief Administrative Officer	13,335,000	13,505,000
Michael T. Duke, Vice Chairman, International Division	10,800,000	11,900,000
Eduardo Castro-Wright, Executive Vice President and President and CEO, Wal-Mart Stores Division	7,375,000	8,712,500

In both fiscal 2007 and fiscal 2008, a significant percentage of TDC consisted of performance shares. For fiscal 2008, approximately 59% of our CEO s TDC consisted of performance shares, and at least 50% of each NEO s TDC consisted of performance shares. As described in more detail below, during both fiscal 2007 and fiscal 2008, our NEOs did not receive any payout for performance shares. Therefore, the actual amounts realized by our NEOs during fiscal 2007 and fiscal 2008 were significantly less than the TDC amounts shown above.

The differences in TDC among our NEOs are due to many factors that the CNGC considers in establishing NEO compensation. These factors include the CNGC s review of peer group compensation information through benchmarking, which is described in more detail below; differences in job scope and responsibilities among our NEOs; expertise and years of experience; historical compensation levels; retention and succession considerations; and individual and divisional performance. The TDC levels set forth in the table above represent the CNGC s judgment as to the appropriate compensation opportunities in light of these factors, and are not the result of any specific policy or formula.

How did the CNGC allocate fiscal 2008 TDC among the various elements of compensation?

After the CNGC establishes TDC for each NEO, it allocates the TDC among base salary, annual cash incentive opportunity, and equity awards. For fiscal 2008, the CNGC allocated more than two-thirds of each NEO s TDC to performance-based elements of compensation, as follows:

			Percentage of Fiscal 2008 TDC*		
			Performance-Based Compensation		
Name	Base Salary	Stock Options (estimate of grant date value)	Performance Shares (grant date value at maximum)	Cash Incentive (at executive target maximum)	Performance-Based (Performance Shares plus Cash Incentive)
H. Lee Scott, Jr.	4.3%	19.6%	59.0%	17.3%	76.3%

Thomas M. Schoewe	10.5%	17.1%	51.3%	21.1%	72.4%
John B. Menzer	7.7%	17.3%	52.1%	23.1%	75.2%
Michael T. Duke	8.2%	16.8%	50.4%	24.6%	75.0%
Eduardo Castro-Wright	8.9%	17.2%	51.6%	22.2%	73.8%

* Percentages in this table have been rounded to the nearest tenth of a percent.

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Base Salary. In keeping with our philosophy that a substantial majority of NEO compensation should be performance-based, the CNGC typically allocates no more than 15% of TDC to base salary, with smaller percentages generally allocated to base salary for more senior executives. For fiscal 2008, our NEO s base salaries were as follows:

Name	Base Salary ($)	Increase over Fiscal 2007
H. Lee Scott, Jr.	1,400,000	7.7%
Thomas M. Schoewe	740,000	5.0%
John B. Menzer	1,040,000	4.0%
Michael T. Duke	975,000	8.3%
Eduardo Castro-Wright	775,000	6.9%

In allocating a portion of TDC to base salary, the CNGC also benchmarks the proposed base salaries for our NEOs against base salaries within our peer groups to ensure that our NEO base salaries are appropriately competitive. The CNGC typically seeks to set base salaries near the median of our peer groups, but will set base salaries higher if necessary to result in TDCs in the top quartile of our peer groups. The benchmarking process for fiscal 2008 is described in more detail below.

Cash Incentive. Under our Management Incentive Plan, most salaried management Associates, including our NEOs, are eligible to earn an annual cash incentive payment. Whether an incentive payment is earned and the amount of any payment depends, however, on whether we achieve pre-established performance goals. For fiscal 2008, these goals were based on growth in pre-tax profit for the total company, and on growth in operating income for each of the company s divisions. Incentive payments are also based on achieving diversity goals. The performance metrics and performance goals used under our cash incentive plan are described in more detail below.

For purposes of allocating TDC among components of compensation, the CNGC valued the cash incentive payment in terms of the executive target maximum incentive payment that could be earned, as described in more detail below. We express these payout levels as a percentage of the NEO s salary for that fiscal year. For fiscal 2008, the specific threshold, maximum and actual cash incentive payouts for each of our NEOs, as a percentage of base salary, are described below.

Equity Awards. The balance of TDC is then allocated between various forms of equity compensation. The CNGC believes equity awards align the interests of our NEOs with the interests of our shareholders. Consistent with our philosophy of tying compensation to performance, for fiscal 2008, the CNGC allocated approximately two-thirds of the equity portion of TDC to performance shares and the remainder to stock options.

Performance Shares. We first granted performance shares to our NEOs in fiscal 2006. A performance share award gives the officer receiving it the right to receive a number of Shares (or, at the NEO s option, the equivalent cash value at the time of payout) if we meet certain performance goals during a specified performance period. If a recipient of performance shares ceases to be employed by us before the end of the applicable performance period, the performance shares do not vest and the recipient receives no payout. For purposes of the TDC amounts set forth above, the dollar amount of TDC allocated to performance shares represents the maximum number of performance shares that may vest multiplied by the Share price on the date of grant.

For fiscal 2008, we granted performance shares with a three-year performance period. Performance shares granted in January 2007 as part of fiscal 2008 compensation have a three-year performance period ending January 31, 2010. For these and prior performance share awards, the applicable performance metrics for fiscal 2008 were: (i) return on investment; and (ii) revenue growth. Of the performance shares granted as part of fiscal 2008 compensation, 60 percent were subject to a return on investment goal, and 40 percent were subject to a revenue growth goal. As described below under Fiscal 2009, the CNGC made certain changes to the performance metrics that will apply to performance shares granted as part of fiscal 2009 compensation. These performance metrics and the reasons for selecting these metrics are described below.

Stock Options. For fiscal 2008 compensation, the CNGC allocated the remainder of TDC to stock options. These stock options vest and become exercisable in five equal annual installments over the five years following the date of grant. The CNGC determined the number of stock options to issue by multiplying the dollar value allocated to stock options by three, and then divided this number by the Share price on the date of grant. This calculation has historically resulted in a rough equivalent to the number of options that would be granted using a fair market valuation model such as Black-Scholes-Merton. However, for fiscal 2008, this calculation resulted in fewer stock options being granted to our

NEOs than if a Black-Scholes-Merton valuation model had been used.

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What performance metrics applied to our NEOs compensation awarded for fiscal 2008?

Each fiscal year, the CNGC selects the performance metrics that will apply to the elements of compensation that are contingent on performance. For fiscal 2008, the CNGC selected the following performance metrics:

Element of Compensation	Performance Metrics	Performance Period
Cash Incentive Payment	Pre-Tax Profit Growth (for Total Company)[1]	2/1/2007 1/31/2008
	Operating Income (for divisions)	
Performance Shares	Return on Investment[2]	2/1/2007 1/31/2010
	Total Company Revenue Growth	

The CNGC chose these performance metrics for fiscal 2008 because it believed that good performance relative to these metrics was likely to have a positive effect on our overall financial performance and shareholder returns. Our NEOs are also subject to diversity goals under our cash incentive program.

What were the specific performance goals for fiscal 2008, and how did our company perform relative to those goals?

Cash Incentive Payment Goals. The CNGC generally attempts to set performance goals applicable to our cash incentive plan so that a consistent level of expected difficulty in achieving these goals is maintained from year to year. The goals applicable to the cash incentive payment are expressed in terms of a percentage increase over our prior year performance. As described below, the cash incentive payment of some of our NEOs is based in part on the performance of one of our operating divisions. For fiscal 2008, the threshold and maximum performance goals under our cash incentive plan, and our actual performance, were as follows:

	Fiscal 2008 Pre-Tax Profit and Operating Income Goals (increase over fiscal 2007)		
Goal Applicable To	**Threshold**	**Actual**	**Maximum**
Total Company (Pre-Tax Profit)	3.0%	7.50%	10.0%
Wal-Mart Stores Division (Operating Income)	3.5%	6.27%	11.7%
International Division (Operating Income)	3.0%	9.59%	9.2%

These goals were established in light of the operating plans for our company and each of its divisions. Because various expenses related to company-wide support functions are allocated to the total company, the total company s maximum performance goal was lower than the Wal-Mart Stores Division. The performance goals for our International Division reflected our strategic growth plans for our international operations, including market conditions and the level of capital investment required for growth in the international markets in which we operate.

1 For the purpose of our cash incentive plan, we defined pre-tax profit for fiscal 2008 as income from continuing operations before income taxes and minority interest, subject to certain adjustments necessary to compare pre-tax profit results for a particular fiscal year to the prior year s results on a comparable basis.

2 For purposes of the performance shares during fiscal 2008, we defined return on investment as adjusted operating income from continuing operations for the applicable period divided by total invested capital for the period. Adjusted operating income from continuing operations, for this purpose, was income from continuing operations before income taxes, minority interest, depreciation and amortization expense, stock option expense, rent expense, and interest expense. Total invested capital, for this purpose, was our total assets, less cash and equivalents, plus accumulated depreciation and amortization and eight times operating lease rents, less non-interest bearing current liabilities. This return on investment measure also excluded the impact of currency exchange rate fluctuations and the impact of acquisitions. The return on investment measure used for purposes of this performance cycle differs from the return on investment measure we currently use for external financial reporting purposes. Beginning in fiscal 2009, the return on investment measure used in our performance share program is the
same as the measure we use for external financial reporting purposes, and is defined as adjusted operating income (operating income plus interest income and depreciation and amortization and rent from continuing operations) for the fiscal year or trailing twelve months divided by average investment during that period. We consider average investment to be the average of our beginning and ending total assets of continuing operations plus accumulated depreciation and amortization less accounts payable and accrued liabilities for that period, plus a rent factor equal to the rent for the fiscal year or trailing twelve months multiplied by a factor of eight.

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In determining actual performance for purposes of our cash incentive plan, the CNGC made certain positive and negative adjustments to the pre-tax profit results of our total company and operating income results for each of our operating divisions, as required by the terms of the plan. The purpose of these adjustments is to ensure that results for a particular fiscal year are computed on a comparable basis as the prior year. For fiscal 2008, adjustments to pre-tax profit included matters related to acquisitions, dispositions, currency exchange rate fluctuations, and certain litigation accruals.

A portion of each NEO s cash incentive payment is also subject to meeting diversity goals. For fiscal 2008, these goals consist of two components: placement goals and good faith efforts goals. For fiscal 2008, each NEO s cash incentive payment could have been reduced by up to 15% if he did not achieve his diversity goals for the year. No NEO s incentive payment was reduced because of a failure to achieve diversity goals for fiscal 2008.

Cash Incentive Weightings. For fiscal 2008, if the threshold pre-tax profit goal for the total company had not been reached, then no payment would have been made to any participant in our cash incentive plan, including our NEOs. Because our total company pre-tax profit performance fell between the threshold goal and the maximum goal, and because the cash incentive payment of each of our NEOs is based in whole or in part on our total company performance, each of our NEOs received a cash incentive payment that was less than the maximum cash incentive that he could have earned for fiscal 2008, as follows:

	Weightings by Company and Division Performance			
Name	**Total Company**	**Wal-Mart Stores**	**International**	**Payout % of Maximum**
H. Lee Scott, Jr.	100%			75.02%
Thomas M. Schoewe	100%			75.02%
John B. Menzer	100%			75.02%
Michael T. Duke	50%		50%	87.51%
Eduardo Castro-Wright	50%	50%		64.29%

Cash Incentive Opportunity. The cash incentive amounts that our NEOs may earn are expressed as a percentage of each NEO s base salary. For fiscal 2008, the CNGC approved a larger cash incentive opportunity for our NEOs than in prior years. Despite our relatively strong operating performance during fiscal 2007, our NEOs failed to realize a substantial portion of their performance-based compensation for that year. As a result, the CNGC determined that the compensation realized by our NEOs during fiscal 2007 was not consistent with their level of performance for the fiscal year, and that this discrepancy gave rise to retention risks. After multiple meetings at which the CNGC considered various alternatives, the CNGC decided to address this discrepancy by increasing the maximum cash incentive opportunity for each of our NEOs for fiscal 2008, as set forth on the table below. The executive target amounts represent the incentive percentages that, absent the performance and retention considerations described above, our NEOs would normally receive under our cash incentive plan. The plan opportunity amounts represent the increased cash incentive opportunities approved by the CNGC for fiscal 2008 only.

At the end of fiscal 2008, the CNGC approved actual incentive payouts as shown on the table below. For some of our NEOs, the CNGC exercised negative discretion to reduce the actual payout approved below the plan opportunity payout that resulting from the application of the payout percentages described above.

	Fiscal 2008 Incentive Payment as % of Base Salary						
	Threshold		**Maximum**		**Formula Payout**	**Formula Payout**	**Actual Payout**
Name	**Executive Target**	**Plan Opportunity**	**Executive Target**	**Plan Opportunity**	**Executive Target**	**Plan Opportunity**	**Approved**
H. Lee Scott, Jr.	120%	240%	400%	800%	300%	600%	600%

Thomas M. Schoewe	60%	120%	200%	400%	150%	300%	300%
John B. Menzer	90%	180%	300%	600%	225%	450%	401%
Michael T. Duke	93.9%	187.8%	300%	600%	263%	525%	457%
Eduardo Castro-Wright	75%	150%	250%	500%	188%	321%	290%

In exercising its discretion to approve the actual incentive payouts shown above, the CNGC considered the following factors:

- the difficulty of company-wide performance goals for fiscal 2008;
- the difficulty of applicable business segment performance goals for fiscal 2008;
- the impact of broader business environment factors on performance results for fiscal 2008;

each NEO s individual performance of his primary job responsibilities;

the level of retention risk for each NEO; and

each NEO s success in developing and executing broader strategic goals.

In considering these factors, the CNGC consulted with our CEO regarding how each of these factors applied to each of the other NEOs. In applying these factors to our CEO, the CNGC consulted with our Chairman. The CNGC concluded that in retrospect, the corporate and division performance goals for fiscal 2008 were difficult to achieve, and that due to rising fuel prices and other economic challenges facing our customers, the business environment during fiscal 2008 increased the difficulty of achieving these goals. The CNGC also considered the recommendations of Watson Wyatt with respect to the appropriate incentive payout for each NEO.

Performance Shares. Goals for performance shares are expressed in terms of average performance over the performance period. All performance shares granted prior to January 2007 vested only if we achieved the threshold goals for all applicable performance measures. For example, the performance shares with a performance period ending January 31, 2008 would vest only if both our average revenue growth and our average return on investment exceeded the threshold goals for those metrics. The following table shows the performance goals applicable to the performance shares with a performance period ending January 31, 2008:

		Performance Goals (% of Performance Shares Vesting on Achievement of Goal)				
Performance Period	**Performance Measure**	**Threshold (50%)**	**Target (100%)**	**Maximum (150%)**	**Actual Performance**	**Payout**
	Average Revenue Growth	9.0%	11.0%	13.0%	7.95%	
2/1/2005 1/31/2008						0%
	Average Return on Investment	22.0%	23.0%	24.0%	23.05%	

Because we failed to satisfy the threshold average revenue growth goal for the performance cycle ended January 31, 2008, all of the performance shares held by our NEOs for that performance cycle failed to vest and were cancelled.

Beginning with the performance shares granted in January 2007 as part of fiscal 2008 compensation, we linked the vesting of a portion of the performance shares to the achievement of our goals under one performance measure and the vesting of the balance of the performance shares to the achievement of our goals under the other performance measure. We made this change to link more directly the achievement of a particular performance measure with compensation. Of the performance shares awarded in January 2007 as part of fiscal 2008 compensation, 40 percent were tied to revenue growth targets. The remaining 60 percent were dependent on our performance against return on investment targets.

What perquisites and other benefits do our NEOs receive?

Our NEOs receive a limited number of perquisites and supplemental benefits. We cover the cost of annual physical examinations. We provide each NEO with personal use of our aircraft for a specified number of hours each year. Certain NEOs receive monitoring and maintenance of home security systems. Our NEOs also receive company-paid life and accidental death and dismemberment insurance. Our NEOs also are entitled to benefits available to Associates generally, including a Wal-Mart discount card, a limited 15 percent match of purchases of our common stock through our Stock Purchase Plan, medical benefits, and foreign business travel insurance. We provide these perquisites and supplemental benefits to attract and retain talented executives to our company and to retain our current executives.

What types of retirement benefits are our NEOs eligible for?

Our NEOs are eligible for the same retirement benefits as our officers generally, such as participation in our Deferred Compensation Plan. They may also take advantage of other benefits available more broadly to our Associates, such as our Profit Sharing/401(k) Plan, and our SERP, which is a non-qualified, non-defined benefit plan in which all of our Associates participate to the extent the Internal Revenue Code limits the amounts we would ordinarily contribute for their benefit under our Profit Sharing/401(k) Plan.

Process for Establishing NEO Compensation

What is the CNGC s role in determining NEO compensation?

Under its charter, the CNGC is responsible for establishing and approving annually the compensation of our CEO and, in consultation with the CEO, our other Executive Officers, including our other NEOs. More information regarding the members of the CNGC and their responsibilities is described under Board Committees beginning on page 12.

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The CNGC meets numerous times each year as part of the process of establishing NEO compensation. The CNGC met twice in January 2007, prior to the start of our fiscal 2008, to consider and approve the total compensation for our NEOs for fiscal 2008 and to select the performance metrics that would apply to that compensation. The Committee had three additional meetings in February and March of 2007 to consider and establish the specific performance goals applicable to the performance-based elements of NEO compensation for fiscal 2008. The CNGC reviewed and certified our fiscal 2008 results for the performance-based elements of fiscal 2008 NEO compensation in March 2008. The CNGC also met eight times in late fiscal 2008 and early fiscal 2009 to approve changes to the design of our executive compensation program and to approve NEO compensation for fiscal 2009.

Given the importance of executive compensation decisions, we have an extensive agenda planning and review process. Each regularly scheduled CNGC meeting agenda is reviewed in advance by our Corporate Secretary, the Executive Vice President of our People Division, the CEO, our Chairman, and the chair of the CNGC to ensure that the appropriate matters are considered at each meeting, that appropriate time is allocated to each agenda item, and that CNGC members have appropriate input into, and information regarding, each agenda item.

What is the role of management and compensation consultants with respect to NEO compensation?

When evaluating, establishing and approving the compensation of our NEOs other than the CEO, the CNGC considers the performance evaluations provided by our CEO and the recommendations provided by our Chairman, our People Division, and our CEO. With respect to the compensation of our CEO, our Chairman, with support from our People Division, makes recommendations to the CNGC. As part of this process, our CEO reviews his annual performance evaluations of the other NEOs with the CNGC.

Our People Division engages compensation consultants to assist it in formulating its recommendations to the CNGC regarding NEO compensation. In analyzing the appropriate level of compensation for our NEOs for fiscal 2008, our People Division relied on benchmarking data and a benchmarking system developed by the Hay Group, Inc. regarding executive pay at peer companies, as described below. The Hay Group generally only advises management on compensation matters but in the past has been and, in the future, may be engaged to assist our company with non-compensation-related services. Representatives of the Hay Group are available to meet with the CNGC independently at the CNGC s request.

In early 2007, following an extensive selection and interview process conducted by members of the CNGC, the CNGC engaged Watson Wyatt as its independent consultant to advise the CNGC on executive compensation matters and assist in assessing and establishing the compensation of Executive Officers, including our NEOs. Watson Wyatt reports directly and exclusively to the CNGC, and Watson Wyatt s role in establishing NEO compensation is determined solely by the CNGC. The CNGC calls on Watson Wyatt when it deems necessary or advisable to obtain Watson Wyatt s advice or recommendations. During fiscal 2008, representatives of Watson Wyatt attended all CNGC meetings at which NEO compensation was an agenda item and consulted frequently with members of the CNGC independently of management. Watson Wyatt also made recommendations to the CNGC regarding the compensation of our CEO. Watson Wyatt assisted the CNGC in evaluating the appropriateness of the compensation to be provided to our NEOs for fiscal 2008 and fiscal 2009 and the changes to our executive compensation program for fiscal 2009. In this role, representatives of Watson Wyatt attended portions of CNGC meetings during which executive compensation matters were considered, and met with and advised members of the CNGC on executive compensation matters, including the proposed compensation of our NEOs, outside of CNGC meetings.

The CNGC has sole authority to retain, terminate, and approve the fees of Watson Wyatt. Prior to its engagement as independent consultant to the CNGC, Watson Wyatt has, from time to time, been engaged by our company on various matters. As a result, Watson Wyatt has provided immaterial amounts of services to our company unrelated to the executive compensation consulting services provided to the CNGC. Under the terms of its engagement by the CNGC, Watson Wyatt may not be engaged by Wal-Mart for additional consulting services unless such services are approved by the CNGC. The CNGC has not approved any such additional services since its engagement of Watson Wyatt. The CNGC is confident that Watson Wyatt provides it with independent and objective advice on executive compensation matters.

No other consultants played a role in establishing NEO compensation for fiscal 2008. Prior to beginning the process of establishing NEO compensation for fiscal 2009, our People Division hired Mercer LLC to assist it in conducting a review of our executive compensation programs. Our People Division and Mercer evaluated our existing executive compensation programs and interviewed our Chairman, our CEO, our other NEOs, other members of our senior management, and members of the CNGC regarding those programs. Based in part on Mercer s review, our People Division recommended changes to the design and composition of the compensation granted to our Executive Officers beginning in fiscal 2009, as described below. During this process, Watson Wyatt reviewed the reports of Mercer prepared in connection with this review and assisted the CNGC in evaluating the reports and recommendations of the People Division. Representatives of Mercer attended one meeting of the CNGC

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during fiscal 2008 and were available to meet with the CNGC independently at the CNGC s request. We have engaged Mercer or its affiliates to perform other services unrelated to executive compensation. These services include advice regarding non-executive compensation, healthcare, and insurance consulting services. M. Michele Burns, a member of our Board who does not serve on the CNGC, is Chairman and Chief Executive Officer of Mercer. Ms. Burns did not participate in the consulting services provided to us by Mercer. Additionally, the services provided by Mercer were reviewed by our Internal Audit department and approved by the Audit Committee under the terms of Wal-Mart s Transaction Review Policy.

How does the CNGC set TDC?

The process of setting TDC is a dynamic one. In setting TDC for fiscal 2008, the CNGC considered, among other things:

- the benchmarking data and analyses described below;
- our overall performance in the 2007 fiscal year, including our financial and operating performance, and, for those NEOs having direct responsibility for the performance of one of our operating divisions, the performance of that operating division;
- each NEO s individual performance and contributions to our achievement of financial goals and operational milestones;
- each NEO s job responsibilities, expertise, historical compensation, and years and level of experience; and
- the importance of retaining each NEO and each NEO s potential to assume greater responsibilities in the future.

We do not have any predetermined formula that determines which of these factors is more or less important in setting TDC, and the importance of specific factors may vary from NEO to NEO. The CNGC considers the individual circumstances of each NEO and the needs of our company when determining the importance of these factors in setting TDC for each NEO.

In evaluating individual performance, the CNGC relied on annual performance evaluations and, for each NEO other than the CEO, on discussions with our CEO regarding such NEO s performance during the fiscal year. In assessing our CEO s performance, the CNGC also relied on an evaluation of our CEO s performance conducted by our Chairman and by the chair of the CNGC and on discussions with our Chairman regarding our CEO s performance.

As a result of this process, the CNGC set TDCs for fiscal 2008 that provided our NEOs with the opportunity to earn total compensation in the top quartile of the total compensation earned by executive officers who hold comparable positions in each of our peer groups. Within this quartile, the CNGC did not attempt to establish TDCs at a specific percentile of any peer group. Rather, the CNGC viewed the benchmarking process as a general guide as to the reasonableness and competitiveness of compensation opportunities for our NEOs.

Because a significant majority of each of our NEO s TDC is tied to performance, and because we did not achieve our maximum performance targets applicable to the performance-based elements of compensation, our NEOs generally realized compensation for fiscal 2008 well below their TDC amounts.

How is benchmarking data used by the CNGC?

During the compensation setting process for fiscal 2008, the CNGC considered benchmarking data in several ways. First, benchmarking data was used to help determine the fiscal 2008 TDC amounts for each NEO. In benchmarking our NEOs against executives at peer group companies, the CNGC relied on comparative data and analyses provided to our People Division by the Hay Group to determine which positions at peer companies are most comparable to those our NEOs. Through this process, the Hay Group analyzes positions at our company and at peer group companies and sizes each job using a consistent methodology to represent the relative scope and difficulty of these jobs. This results in a point score for each job that is intended to provide for more accurate comparisons by referencing jobs of similar size. Our People Division and the CNGC relied on these comparisons to determine those positions at peer group companies that are most comparable, in terms of job scope and responsibilities, to the positions and job responsibilities of our NEOs. Using this data does not produce comparable positions at all of our peer group companies for all of our NEOs.

The CNGC also used benchmarking data when allocating each NEO s TDC among the various elements of compensation as a general guide to ensure that the value of each element was set at an appropriately competitive level consistent with our emphasis on performance-based compensation.

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What peer groups do we benchmark the compensation of our NEOs against?

Our company is the world s largest retailer by a wide margin and has significantly more extensive international operations than most publicly traded U.S.-based retailers. As a result, the CNGC believes that simply benchmarking NEO compensation against a retail industry index would not provide the CNGC with sufficient information with which to determine the appropriate compensation of our NEOs. Therefore, when setting NEO compensation for fiscal 2008, we reviewed publicly-available information for three peer groups to determine how our NEOs compensation compared to the compensation paid to executives in comparable positions at other companies. Since information regarding positions comparable to those of some of our NEOs is not available for many of the companies in our peer groups, using three peer groups also resulted in a larger number of positions to which our NEOs compensation could be benchmarked. Data regarding each of these peer groups was compiled by our People Division with the assistance of the Hay Group based on publicly available information.

Retail Industry Survey. This survey allowed us to compare our NEO compensation to that of our primary competitors in the retail industry. For fiscal 2008, the Retail Industry Survey included all publicly traded U.S. retail companies with annual revenues exceeding approximately $9 billion, which were:

Albertson s, Inc.	Kohl s Corporation	Safeway Inc.
Best Buy Co., Inc.	The Kroger Co.	Sears Holdings Corporation
Circuit City Stores, Inc.	Limited Brands, Inc.	Staples, Inc.
Costco Wholesale Corporation	Lowe s Companies, Inc.	Supervalu Inc.
CVS Caremark Corporation	Office Depot, Inc.	Target Corporation
Macy s Inc. (formerly Federated Department Stores, Inc).	OfficeMax Incorporated	The TJX Companies, Inc.
The Gap, Inc.	Publix Super Markets, Inc.	Toys R Us, Inc.
The Home Depot, Inc.	Rite Aid Corporation	Walgreen Co.
J.C. Penney Corporation, Inc.		

Top 50. At the time of our benchmarking for fiscal 2008, we were approximately 15 times larger in terms of annual revenue, and approximately ten times larger in terms of market capitalization, than the Retail Industry Survey at the median. To take into account this size discrepancy and the corresponding complexity of our NEOs job responsibilities, we also benchmarked our NEO pay against the fifty largest public companies (including Wal-Mart) in terms of market capitalization at the time of the review:

3M Company	eBay Inc.	Motorola, Inc.
Abbott Laboratories	Eli Lilly and Company	Oracle Corporation
Altria Group, Inc.	Exxon Mobil Corporation	PepsiCo, Inc.
American Express Co.	Genentech, Inc.	Pfizer Inc.
American International Group, Inc.	General Electric Company	The Procter & Gamble Company
Amgen Inc.	Google Inc.	Qualcomm, Inc.
AT&T Inc.	Hewlett-Packard Company	Schlumberger Ltd.
AXA	The Home Depot, Inc.	Sprint Nextel Corporation
Bank of America Corporation	Intel Corporation	Time Warner Inc.
Berkshire Hathaway Inc.	International Business Machines Corporation	United Parcel Service, Inc.
Bhp Billiton Limited	JPMorgan Chase & Co.	UnitedHealth Group Inc.
Chevron Corporation	Johnson & Johnson	Verizon Communications Inc.

Cisco Systems, Inc.

Wachovia Corporation

Merck & Co., Inc.

Citigroup Inc.

Wells Fargo & Company

Merrill Lynch & Co., Inc.

The Coca Cola Company

Wyeth

Microsoft Corporation

ConocoPhillips

Yahoo! Inc.

Morgan Stanley

Dell Inc.

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Select Fortune 100. Finally, we benchmarked our NEO compensation against a select group of companies within the Fortune 100. This group, which we refer to as the Select Fortune 100, was chosen from among the Fortune 100 by the People Division with the assistance of the Hay Group. The Select Fortune 100 includes companies whose primary business is not retailing, but that are similar to us in one or more ways, such as global operations, business model, and size. We excluded retailers from this group, since those companies were already represented in the Retail Industry Survey. We also excluded companies with business models that are broadly divergent from ours, such as financial institutions and energy companies. The 37 companies included in the Select Fortune 100 Survey used to determine fiscal 2008 compensation were:

3M Company	General Electric Company	News Corporation
Abbot Laboratories	Hewlett-Packard Company	Novartis AG
Altria Group, Inc.	International Business Machines Corporation	PepsiCo, Inc.
Amgen Inc.	Johnson & Johnson	Pfizer Inc.
Anheuser-Busch Companies, Inc.	Johnson Controls, Inc.	The Procter & Gamble Company
Apple Inc.	Kimberly-Clark Corporation	Sprint Nextel Corporation
AT&T Corp.	Kraft Foods Inc.	Time Warner Inc.
Bristol-Myers Squibb Company	Eli Lilly and Company	Tyco International Ltd.
The Coca-Cola Company	McDonald s Corporation	United Parcel Service, Inc.
Colgate-Palmolive Company	Merck & Co., Inc.	Verizon Communications Inc.
Dell Inc.	Microsoft Corporation	The Walt Disney Company

Emerson Electric Co.	Motorola, Inc.	Wyeth
FedEx Corporation		

We did not attempt to quantify or otherwise assign any relative weightings to any of these peer groups or to any particular members of a peer group when benchmarking against them.

What other information does the CNGC consider when establishing TDC?

The CNGC also reviews other information in the process of setting TDC, although the CNGC generally considers these factors to be less significant than the factors described above.

Realized Compensation. The CNGC also reviews an estimate of the realized compensation of each of our NEOs for the prior fiscal year. The CNGC reviews this information in order to understand the compensation actually earned by each NEO and to determine whether such realized compensation is consistent with its view of the performance of each NEO. No specific quantitative criteria is used in performing this analysis; rather, the CNGC views this information as helpful in making a subjective determination as to the appropriateness and reasonableness of each NEO s compensation and of the effectiveness of our compensation programs in achieving our objectives.

Tally Sheets. Beginning with the fiscal 2009 NEO compensation process, the CNGC also reviewed tally sheets prepared by Watson Wyatt. These tally sheets summarized the total value of the compensation received by each NEO during fiscal 2008 and quantified the value of each element of that compensation, including perquisites and other benefits. They also quantified the amounts that would be owed to each NEO upon retirement or separation from our company.

Fiscal 2009 Compensation

What are the significant changes to our executive compensation program for fiscal 2009?

Prior to setting compensation for fiscal 2009, the CNGC undertook a comprehensive review and analysis of our executive compensation program to determine if any improvements could be made to more closely tie executive compensation with performance that can be impacted by our executives, and to align our executive compensation program with shareholder interests. This process began with Mercer s review of our existing program and included the review and recommendations from our People Division and advice to the CNGC regarding these recommendations from Watson Wyatt. As a result of this review, the CNGC approved changes to our executive compensation program for fiscal 2009, including:

- setting a target performance goal, in addition to the threshold and maximum goals used in prior years, under our cash incentive plan, and adding a discretionary component to the plan;
- the use of domestic comparable store sales and international sales growth as performance metrics;
- setting performance share goals on an annual basis, rather than setting a single set of goals for the full three-year term of the performance shares;

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increasing the portion of annual equity awards that are conditioned on performance goals; and

for the time-vested portion of annual equity awards, granting restricted stock in lieu of stock options.
These changes are discussed in more detail below.

Cash Incentive Plan. For fiscal 2009, the CNGC set target pre-tax profit and operating income goals, in addition to the threshold and maximum goals set in prior years. Upon achieving target goals, our NEOs would receive an incentive payout equal to 80% of the incentive payout that would be received if maximum performance goals are achieved. The CNGC generally seeks to set maximum and threshold pre-tax profit and operating income goals such that the relative difficulty of achieving these goals, based on the information available at the time the goals are set, is consistent from year to year. The CNGC set target performance goals for fiscal 2009 to be achievable if we perform well and in line with our expectations.

In addition, for fiscal 2009, the CNGC approved an individual performance component to the cash incentive plan. Under the plan as revised, the CNGC may, at its discretion, increase or decrease the amount of any individual NEO s cash incentive payment by up to 20% of the target payout. Any such increase or decrease would be based on the CNGC s subjective evaluation of an NEO s individual performance.

For fiscal 2009, the threshold, target and maximum cash incentive payments for each of our continuing NEOs, as a percentage of base salary, are as follows:

	Fiscal 2009 Incentive Payment Percent of Base Salary			Weightings by Company and Divisional Performance			
Name	Threshold	Target	Maximum	Total Company	Wal-Mart Stores	Sam s Club	International
H. Lee Scott, Jr.	120%	320%	400%	100%			
Thomas M. Schoewe	60%	160%	200%	100%			
Michael T. Duke	90%	240%	300%	50%			50%
Eduardo Castro-Wright	90%	240%	300%	50%	50%		

In addition, each NEO will continue to have diversity goals. If an NEO does not achieve these diversity goals, his incentive payment could be reduced by up to 15 percent.

Equity Mix. Over the past several years, an increasingly greater portion of equity-based compensation has been tied to our performance through the use of performance shares. For fiscal 2009, performance shares constitute approximately 75% of the total value of each NEO s total annual equity award, up from approximately two-thirds for the prior year.

Restricted Stock. For fiscal 2008 and for prior fiscal years, our NEOs received stock options as the time-based component of their annual compensation. For fiscal 2009, our NEOs received restricted stock instead of stock options, which constituted approximately 25% of the total value of each NEO s total annual equity award. The CNGC viewed the time-based component of annual equity awards as primarily serving a retention function and determined that restricted stock would be a more effective tool for this purpose. As with stock options, the recipient must remain employed by us for a period of time before the restricted stock vests, and the value of the restricted stock will fluctuate along with any increases or decreases in the price of our common stock.

Performance Share Metrics. For the performance shares granted as part of fiscal 2009 compensation, the CNGC retained return on investment as one of the performance metrics. However, the CNGC replaced the average revenue growth metric used in prior years with a domestic comparable store sales improvement metric and a growth in International Division revenue. For our continuing NEOs, the weighting of these metrics for fiscal 2009 is as follows:

Name	Return on Investment	Comparable Store Sales	International Revenue
H. Lee Scott, Jr.	60%	30%	10%
Thomas M. Schoewe	60%	30%	10%
Michael T. Duke	60%	0%	40%
Eduardo Castro-Wright	60%	40%	0%

The CNGC chose domestic comparable store sales as a performance metric because it believes it is a key driver of shareholder returns, and because investors look to comparable store sales as an important measure of performance in the retail industry.[3] Since officers with primary responsibility for our international operations have little control over our domestic comparable store sales, the CNGC instead established total revenue growth in our International operations as a performance share metric for these officers.

Performance Share Goals. As a result of its review of the performance share awards and how well they served their intended purpose, for the fiscal 2009 awards, the CNGC also changed the manner in which performance goals are set and measured. Previously, performance goals were set at the beginning of the three-year vesting period for the entire three-year period. After several years of experience with performance shares, we determined that, as a practical matter, setting goals at the beginning of a three-year period for the entire period could result in performance goals that were either not realistically achievable or could prove to be too easy to achieve. In either instance, performance shares would cease to be an effective tool in motivating performance. The performance shares granted in January 2008 will continue to have a three-year vesting period and will continue to be based on performance over that three-year period. However, the CNGC will set the goals for each fiscal year within the three-year performance cycle early in that fiscal year. At the end of each year, the CNGC will determine our performance as a percentage of our target performance goal for that year. At the end of the full three-year performance cycle, we will calculate the average of these performance percentages for the three years to determine whether any performance shares will vest and, if so, how many. This change should give the CNGC the ability to set more effective performance goals based on more current information and over a more realistic time frame.

For fiscal 2009, the CNGC set performance goals applicable to performance shares at levels which, if we perform well and in line with expectations, target performance goals should be achievable. Our company must perform at an extraordinary level in order to achieve maximum performance goals for 2009.

General Executive Compensation Matters

What are our practices for granting stock options and other equity awards?

Option Exercise Prices. While stock options are not a part of our annual compensation for fiscal 2009, we may still grant stock options in special circumstances. We grant stock options with an exercise price equal to the fair market value of our common stock on the date of grant.

Timing of Equity Awards. The CNGC meets each January to approve and grant annual equity awards to our NEOs for the upcoming fiscal year beginning February 1. Because of the timing of these meetings, equity grants awarded for an upcoming fiscal year are reported in the executive compensation tables appearing in this proxy as granted during the prior fiscal year. The CNGC meets again each March to establish the performance goals applicable to the performance shares and any other performance-based equity granted at the January meeting. Any special equity grants to Executive Officers during the year are approved by the CNGC at a meeting or by unanimous written consent.

Does the CNGC take tax consequences into account when designing executive compensation?

Yes. Section 162(m) of the Internal Revenue Code provides that compensation in excess of $1 million paid to certain of our NEOs is generally not deductible unless it is performance-based. A significant portion of the compensation awarded to our NEOs satisfies the requirements for deductibility under Section 162(m). When designing NEO compensation, the CNGC considers whether particular elements of that compensation will be deductible for federal income tax purposes. The CNGC retains the ability to evaluate the performance of our NEOs and to pay appropriate compensation, even if some compensation will not be deductible under federal tax laws. Because the CNGC exercised negative discretion with respect to cash incentive payments for fiscal 2008, the CNGC believes that the full amounts of the cash incentive payments made to our NEOs for fiscal 2008 will meet the deductibility requirements under Section 162(m). With the exception of any portion of the cash incentive payment attributable to individual performance, the CNGC believes that any cash incentive payments made to our NEOs for fiscal 2009 will also meet these deductibility requirements.

[3] The definition of comparable store sales for this purpose is the same as the definition used for financial reporting purposes, and includes sales from stores and clubs open for the previous 12 months, including remodels, relocations and expansions. Changes in format are excluded from comparable store sales when the conversion is accompanied by a relocation or expansion that results in a change in square footage of more than five percent.

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Do we have employment agreements with our NEOs?

We do not have employment agreements with any of our NEOs. All NEOs are employed on an at-will basis.

Do we have severance agreements with our NEOs?

We have entered into a post-termination and non-competition agreement with each NEO. Each agreement provides that, if we terminate the NEO s employment for any reason other than his violation of company policy, we will generally pay the NEO an amount equal to two times the NEO s base salary, one-fourth of which is paid upon termination of employment and the balance of which is paid in installments commencing six months after separation. The amount payable may be reduced by the amount of any earnings that the NEO receives from other employment during that period.

Under these agreements, each NEO agrees that for a two-year period following his termination of employment, he will not participate in a business that competes with us and will not solicit our Associates for employment. In this context, competing business means any retail, wholesale, or merchandising business that sells products of the type sold by us, is located in a country in which we have a store or in which the executive knows we expect to have a store within the next two years, and has annual retail sales revenue of at least $2 billion. These agreements reduce the risk that any of our former NEOs would use the skills and knowledge they gained while with us for the benefit of one of our competitors during a reasonable period after leaving our company. For more information regarding payments that we may be required to make to our NEOs upon termination of employment, see the disclosure below entitled Potential Payments Upon Termination or Change in Control.

In January 2008, Mr. Menzer announced that he would retire from the Company effective March 1, 2008. After negotiation, we entered into a separation agreement with Mr. Menzer in connection with his retirement. This agreement superseded the post-termination and non-competition agreement to which he was a party. Under the terms of the separation agreement, Mr. Menzer agreed not to compete with us for a period of three years from the date of his departure and is subject to confidentiality, cooperation, non-disclosure and non-solicitation obligations. Pursuant to this separation agreement, Mr. Menzer will receive transition payments totaling $6,710,916 over the two-year period following his departure, subject to his compliance with the obligations described above. This agreement also accelerated the vesting of 222,404 Shares of restricted stock held by Mr. Menzer to his departure date.

Does our compensation program contain any provisions addressing the recovery or nonpayment of compensation in the event of misconduct?

Yes. Our cash incentive plan provides that, in order to be eligible to receive an incentive payment, the participant must have complied with our policies, including our Statement of Ethics, at all times. It further provides that if the CNGC determines, within twelve months following the payment of an incentive award, that prior to the payment of the award, a participant has violated any of our policies or otherwise committed acts inimical to the best interests of our company, the recipient must repay the incentive award upon demand. Similarly, our 2005 Stock Incentive Plan provides that if the CNGC determines that an Associate has committed any act inimical to the best interests of our company, he or she will forfeit all unexercised options and unvested Shares of restricted stock and performance shares.

Are our NEOs subject to any minimum requirements regarding ownership of our stock?

To further align the long-term interests of our NEOs and our shareholders, our Board has approved the following stock ownership guidelines:

- beginning June 1, 2008, our CEO must maintain beneficial ownership of Shares equal in market value to five times his current annual base salary; and

- each of our other NEOs must, beginning the later of June 1, 2008 or the fifth anniversary of his or her appointment as an executive officer, maintain beneficial ownership of Shares equal in market value to three times his or her current annual base salary.

The Board or CNGC can modify these guidelines in the event of dramatic and unexpected changes in the market value of our Shares, or in other circumstances that the Board or CNGC deem appropriate. These guidelines will become effective June 2008 for each NEO with the exception of Eduardo Castro-Wright, for whom the guidelines will become effective February 2010.

Are there any restrictions on the ability of NEOs to engage in speculative transactions involving company stock?

Yes. Our Insider Trading Policy allows NEOs to trade in our stock only during open window periods and only after they have pre-cleared transactions. Moreover, NEOs may not at any time engage in any short selling, buy or sell exchange-traded puts or calls, or otherwise engage in any transaction in derivative securities that reflect speculation about the price of our stock or that may place their financial interest against the financial interests of our company.

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SUMMARY COMPENSATION

This table shows the compensation for fiscal 2008 and fiscal 2007 for each of the Company s NEOs.

Name and Principal Position	Fiscal year ended Jan. 31,	Salary ($) (1)	Bonus ($) (2)	Stock Awards ($) (3)	Option Awards ($) (4)	Non-Equity Incentive Plan Compen-sation ($) (5)	Change in Pension Value and Nonquali-fied Deferred Compen-sation Earnings ($) (6)	All Other Compen-sation ($) (7)	Total ($)
H. Lee Scott, Jr.	2008	1,400,000	0	14,075,468	6,839,918	8,400,000	450,592	431,446	31,597,424
President and CEO	2007	1,300,000	0	15,274,351	8,081,272	4,285,840	308,390	422,680	29,672,533
Thomas M. Schoewe	2008	740,000	0	4,039,849	1,285,596	2,220,592	114,653	117,198	8,517,888
Executive Vice President and CFO	2007	700,385	0	3,989,665	1,534,178	1,162,122	85,603	135,101	7,607,054
John B. Menzer	2008	1,040,000	0	6,763,931	2,433,794	4,166,624	253,002	205,347	14,862,698
Vice Chairman, Chief Administrative Officer(8)	2007	1,000,000	0	6,141,744	2,827,292	2,435,700	186,679	154,321	12,745,736
Michael T. Duke	2008	975,000	0	5,212,916	2,217,537	4,459,668	160,223	264,404	13,289,748
Vice Chairman, International Division	2007	900,000	0	4,648,859	2,358,174	2,462,670	94,793	169,900	10,634,396
Eduardo Castro-Wright	2008	775,000	25,000	3,436,278	621,795	2,245,619	80,875	128,267	7,312,834
Executive Vice President and President and CEO, Wal-Mart Stores Division	2007	721,154	50,000	3,609,065	499,264	1,177,255	52,813	92,162	6,201,713

(1) The amounts shown in this column are salaries earned during fiscal 2008 and fiscal 2007, the following amounts of which the NEOs elected to defer under the Deferred Compensation Plan:

Name	Fiscal 2008($)	Fiscal 2007($)
H. Lee Scott, Jr.	376,923	300,000
Thomas M. Schoewe	0	72,000
John B. Menzer	220,000	286,000
Michael T. Duke	192,308	150,000
Eduardo Castro-Wright	200,000	192,000

(2)

The amounts shown in this column for Mr. Castro-Wright are bonus payments made to Mr. Castro-Wright in fiscal 2008 and fiscal 2007 relating to his prior expatriate assignment as the President and CEO of Wal-Mart de Mexico, S.A. de C.V.

(3) The amounts included in this column are equal to the compensation expense recognized by the Company for financial reporting purposes in accordance with Statement of Financial Accounting Standards No. 123R (SFAS 123R) for fiscal 2008 and fiscal 2007 relating to outstanding equity awards, including restricted stock awards, performance-based restricted stock awards and performance share awards, granted prior to or during each such fiscal year. The amounts in this column for each fiscal year disregard any estimated forfeitures related to service-based vesting conditions during that fiscal year. Amounts relating to portions of awards made in several years, including fiscal 2008 and fiscal 2007, are included.

The expense relating to restricted stock awards to the NEOs is recognized ratably in monthly increments over the vesting period of the award. Restricted stock awards vest on a number of different schedules. Certain restricted stock awards vest in installments of 25 percent of the Shares of restricted stock awarded on the third and fifth anniversaries of the grant date, with the remaining 50 percent vesting on the seventh anniversary of the grant date. Other restricted stock vests only upon the retirement on or after age 65 of the recipient.

Restricted stock granted to the NEOs on January 21, 2008 will vest in three equal installments on the second, fourth and fifth anniversaries of the grant date. Mr. Castro-Wright also received a second grant that will vest in equal installments on the third and fifth anniversaries of the grant date. During fiscal 2008, unvested restricted stock awards held by Mr. Schoewe as to

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46,744 Shares that were originally scheduled to vest upon his retirement on or after age 65 were modified so that the restricted stock will vest on the following dates: 26,572 Shares on January 21, 2011; 9,592 Shares on January 5, 2012; and 10,580 Shares on January 3, 2013.

As to awards of restricted stock made prior to January 2008, within thirty days of receiving a restricted stock award, a recipient may elect to defer payment of the restricted stock in the form of cash or Shares once the restricted stock vests. Awards as to which the recipients have elected to defer the restricted stock award in cash or have not yet made an election are treated as a liability of the Company, which is marked-to-market monthly through expense using the closing Share price on the last business day of the month, which was $50.74 on January 31, 2008 and $47.69 on January 31, 2007. Where recipients elect to have awards paid or deferred in Shares, the award is treated as an equity award, and the expense is calculated using the closing Share price on the last business day of the month of election. The awards of restricted stock made on or after January 21, 2008 may be paid or deferred only in Shares. The amounts reflected in this column include both cash and Share settled awards.

Performance share award expense is recognized ratably in monthly increments over the vesting period of the award, generally three years, taking into account the likelihood of the Company achieving the performance goals set by the CNGC for each award. The following assumptions were made as of January 31, 2008 and 2007, regarding the likelihood of the Company achieving the performance goals for awards for which an amount is reflected in this column for each fiscal year shown:

Award	Payout Percentage Assumed as of January 31, 2008	Payout Percentage Assumed as of January 31, 2007
Performance share awards scheduled to vest 1/31/07	Not applicable	0%
Performance share awards scheduled to vest 1/31/08	0%	82.46%
Performance share awards scheduled to vest 1/31/09	86.03%	104.56%
Performance share awards scheduled to vest 1/31/10	92.36%	100%
Performance share awards scheduled to vest 1/31/11	100%	Not applicable

Recipients of performance share awards scheduled to vest on January 31, 2009 or January 31, 2010 may receive payment in cash or Shares at vesting and must elect the form of payment no later than six months before the end of the performance period. For those awards made to recipients who have elected to receive the award in cash or have not yet made an election, the award is treated as a liability, which is marked-to-market monthly through expense, using the closing Share price on the last business day of the month, which was $50.74 on January 31, 2008 and $47.69 on January 31, 2007. For awards to be paid or deferred in Shares, the award is treated as an equity award, and the expense is calculated using the closing Share price on the last business day of the month of election. Awards made during or after January 2008 may be paid or deferred solely in Shares. Because awards made during January 2008 were not communicated to the recipients until after the end of fiscal 2008, no expense related to these performance shares was recognized during fiscal 2008. The amounts shown in this column include both cash and Share settled awards.

During fiscal 2008 and fiscal 2007, no forfeitures of restricted stock or performance-based restricted stock awards occurred. On March 5, 2008, the CNGC determined that the threshold performance goals for the three-year performance period ending January 31, 2008 applicable to performance shares granted to the NEOs and certain other senior executives and scheduled to vest on January 31, 2008 had not been satisfied. On March 7, 2007, the CNGC determined that the threshold performance goals for the two-year performance period ending January 31, 2007 applicable to performance shares granted to the NEOs and certain other senior executives and scheduled to vest on January 31, 2007 had not been satisfied. As a result, the performance shares awarded to the NEOs that had been scheduled to vest on January 31, 2007 and January 31, 2008 were cancelled, as follows:

Name	Grant Date	

		Performance Shares Scheduled to Vest on 1/31/2008 Cancelled	Performance Shares Scheduled to Vest on 1/31/2007 Cancelled
H. Lee Scott, Jr.	1/21/2005	118,650	118,650
Thomas M. Schoewe	1/3/2005	21,162	21,162
John B. Menzer	1/3/2005	40,975	40,975
Michael T. Duke	1/3/2005	25,904	25,904
Eduardo Castro-Wright	1/3/2005	6,927	6,927

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Because these performance shares did not vest, the cumulative expense recognized for the performance shares that would have vested on January 31, 2008 and that would have vested on January 31, 2007 was reversed during fiscal 2008 or fiscal 2007, as applicable. As a result, the amounts reflected in this column including the following credits:

Name	Fiscal 2007 Compensation Expense Credit Recorded in Fiscal 2008 for Performance Shares Scheduled to Vest on January 31, 2008($)	Fiscal 2006 Compensation Expense Credit Recorded in Fiscal 2007 for Performance Shares Scheduled to Vest on January 31, 2007($)
H. Lee Scott, Jr.	1,952,606	1,737,033
Thomas M. Schoewe	348,252	309,813
John B. Menzer	674,321	599,868
Michael T. Duke	426,285	379,232
Eduardo Castro-Wright	113,991	101,419

(4) The amounts in this column represent the dollar amounts recognized by the Company for financial reporting purposes in accordance with SFAS 123R during fiscal 2008 and fiscal 2007 related to option awards granted to the NEOs and disregard any estimated forfeitures related to service-based vesting conditions. In accordance with SFAS 123R, the grant date fair values of these options were estimated using the Black-Scholes-Merton option pricing model. Stock options expire ten years from the date they are granted and generally vest in equal installments over a five-year service period. The assumptions made to estimate the grant date fair value of the options using the Black-Scholes-Merton model for fiscal 2008 and fiscal 2007 are discussed in Note 7 to the Company s Consolidated Financial Statements as of January 31, 2008 and for the year then ended, which are included in the Annual Report to Shareholders.

(5) Incentive payments in this column were earned under the Management Incentive Plan in connection with the Company s performance for fiscal 2008 and fiscal 2007, but were paid during the following fiscal year. Certain of these amounts were deferred at the election of the officer under the Company s non-qualified deferred compensation plans, as follows:

Name	Fiscal 2008($)	Fiscal 2007($)
Michael T. Duke	3,344,751	1,847,003
Eduardo Castro-Wright	0	588,628

(6) The amounts shown in this column represent above-market interest credited on deferred compensation under the Company s non-qualified deferred compensation plans, as calculated pursuant to Item 402(c)(2)(viii)(B) of Regulation S-K.

(7) All other compensation for fiscal 2008 and fiscal 2007 includes the following amounts with respect to the Company s contributions to the Company s SERP, the personal use of Company aircraft by the NEO and incentive payments on amounts deferred under the Deferred Compensation Plan:

	Fiscal 2008			Fiscal 2007		
Name	Company	Aircraft Use($)	Deferred Compensation Plan Incentive	Company	Aircraft Use($)	Deferred Compensation Plan Incentive

	Contribution to SERP($)		Payments($)	Contribution to SERP($)		Payments($)
H. Lee Scott, Jr.	227,520	101,208	64,874	210,121	138,713	61,464
Thomas M. Schoewe	69,834	32,333	0	59,249	66,255	0
John B. Menzer	135,637	5,894	44,845	101,764	0	41,634
Michael T. Duke	133,707	78,474	33,701	76,222	52,904	28,865
Eduardo Castro-Wright	71,787	33,006	0	46,994	27,997	0

The value shown for personal use of Company aircraft is the incremental cost to the Company of such use, which is calculated based on the variable operating costs to the Company per hour of operation, which include fuel costs, maintenance, and associated travel costs for the crew. Fixed costs that do not change based on usage, such as pilot salaries, depreciation, insurance, and rent, were not included.

All other compensation for each NEO in fiscal 2008 and fiscal 2007 also includes Company contributions to the Profit Sharing/401(k) Plan and term life insurance premiums paid by Wal-Mart for the benefit of each officer for those fiscal years.

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This amount also includes the Company s cost for a senior executive physical for Messrs. Scott, Duke and Castro-Wright in fiscal 2008 and fiscal 2007 and for Mr. Menzer in fiscal 2008. This amount also includes monitoring and maintenance costs for home security equipment for Messrs. Scott, Menzer and Duke in fiscal 2008 and fiscal 2007 and for Mr. Schoewe in fiscal 2007. For Mr. Menzer, the amount for fiscal 2008 includes costs for Company-paid telephone service. For Mr. Castro-Wright, the amount for fiscal 2008 includes the costs of tax preparation services, and for fiscal 2007 includes certain tax equalization payments related to his former expatriate assignment as president and CEO of Wal-Mart de Mexico, S.A. de C.V. In addition, the amounts for fiscal 2008 for each NEO included the amounts of certain other tax gross-up payments. The values of these personal benefits are based on the incremental aggregate cost to the Company and are not individually quantified because none of them individually exceed the greater of $25,000 or 10% of the total amount of perquisites and personal benefits for such NEO.

(8) Mr. Menzer retired from the Company effective March 1, 2008. Pursuant to a separation agreement between Mr. Menzer and the Company dated January 21, 2008, Mr. Menzer will receive certain cash payments after March 1, 2008 and the vesting of certain restricted stock and performance shares held by Mr. Menzer was accelerated to March 1, 2008. The amounts of such payments, which commence in fiscal 2009, and the majority of the expense related to such accelerated vesting, are not included in the amounts shown in the Summary Compensation table.

Other than post-termination agreements containing covenants not to compete (as described below under Potential Payments upon Termination or Change in Control), the Company does not have employment agreements with its NEOs. The CNGC reviews and approves at least annually the compensation package of all Executive Officers, consisting of base salary, annual cash incentive payments, equity awards, and perquisites. The various incentive and equity compensation plans and types of awards available under the Company s plans are described more fully in the CD&A and more detail regarding the specific incentive and equity awards granted to NEOs during the Company s fiscal 2007 and fiscal 2008 are set forth in the Grants of Plan-Based Awards table and accompanying notes.

After serving as President and CEO of Wal-Mart de Mexico, S.A. de C.V., Eduardo Castro-Wright accepted an offer of employment from Wal-Mart Stores, Inc. on December 20, 2004, which set forth his base salary, annual incentive payment, certain bonus payments related to his expatriate assignment with Wal-Mart de Mexico, S.A. de C.V., an annual stock option award, an initial restricted stock award, and the benefits to which Associates of the Company are generally entitled (e.g., health insurance and participation in the Stock Purchase Plan and the Profit Sharing/401(k) Plan). That offer was made in connection with Mr. Castro-Wright assuming the position of Executive Vice President and Chief Operating Officer of the Wal-Mart Stores Division.

GRANTS OF PLAN-BASED AWARDS

		Potential Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	**Grant Date**	**Threshold ($) (1)**	**Target ($) (1)**	**Maximum ($) (1)**	**Threshold (#) (2)**	**Target (#) (2)**	**Maximum (#) (2)**	**All Other Stock Awards: Number of Shares of Stock or Units (#) (3)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Market Value of Stock and Option Awards($) (4)**
H. Lee Scott, Jr.	1/21/2008	1,747,200	4,659,200	5,824,000							
	1/21/2008				149,748	299,496	449,244				14,250,019
	1/21/2008							99,832			4,750,007
Thomas M. Schoewe	1/21/2008	468,000	1,248,000	1,560,000							
	1/21/2008				28,374	56,747	85,121				2,700,022
	1/21/2008							18,916			900,023
John B. Menzer (5)											
Michael T. Duke	1/21/2008	945,000	2,520,000	3,150,000							
	1/21/2008				55,170	110,340	165,510				5,249,977

	1/21/2008							36,780	1,749,992
Eduardo Castro-Wright	1/21/2008	810,000	2,160,000	2,700,000					
	1/21/2008				43,348	86,696	130,044		4,124,996
	1/21/2008							112,968	5,375,017

(1) The amounts in these columns represent the threshold, target and maximum amounts of potential cash incentive payments that may be made to the NEOs under the Management Incentive Plan based on performance during fiscal 2009. Under the Management Incentive Plan, the Company may make an annual cash incentive payment to an NEO if the Company meets certain goals under certain performance metrics established for the fiscal year as to which the payments are payable. For fiscal 2009, Wal-Mart must meet the threshold goals under each performance metric applicable to an NEO for that NEO to receive payments in the threshold amount shown above for that NEO, must meet the applicable target goals for the NEO to receive the payment of the target amount shown above and must meet the applicable maximum goals for the NEO to receive a payment in

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the maximum amount shown above. Performance at a level between the threshold and the maximum goals results in a payment in proportion to the level of performance between those goals. If Wal-Mart does not meet the threshold goals for each applicable performance metric, no payment will be made under the Management Incentive Plan as to fiscal 2009. The amount of the potential payments at the threshold, target and maximum levels for each NEO were set during fiscal 2008, while the specific goals for each performance metric and at each payment level were set in March 2008. Any cash incentive payment otherwise earned by an NEO can be reduced by up to 15% if that NEO fails to meet his applicable diversity goals. In addition, the CNGC may increase or decrease the amount of each of the payments shown in the table above, at its discretion, by 20% of the target payment. The CD&A provides additional information regarding cash incentive payments made pursuant to the Management Incentive Plan, the performance metrics used to determine if payments will be received by the NEOs, and the amount of any such payments.

(2) The amounts in these columns represent performance shares awarded under the 2005 Stock Incentive Plan in fiscal 2008 as part of the fiscal 2009 compensation of the NEOs. As reflected in the table below, Wal-Mart s performance against goals under either two or three performance metrics will determine the total number of Shares to vest for each NEO, if any. From 0 percent to 150 percent of the target number of Shares applicable to that performance metric will vest at the end of the three-year performance period to end on January 31, 2011, depending on the level of Wal-Mart s average performance relative to goals under that performance metric over that performance period. If Wal-Mart does not meet the threshold level of performance for a particular performance metric, none of the performance shares tied to that performance metric will vest. However, vesting of the performance shares tied to a particular performance metric will not depend on Wal-Mart meeting at least the threshold goal for other performance metrics applicable to the NEO. The CNGC will annually establish performance goals under each performance metric for each of the three fiscal years within the performance period. The goals for each performance metric may be the same as or different from the goals for that performance metric in any other year in the performance period. Average performance against the annual goals for a particular performance metric over the three-year performance cycle will determine the number of performance shares to vest based on that performance metric. For the performance shares shown in these columns, for fiscal 2009, the applicable performance measures are return on investment, comparable store sales, and international revenue growth, and are weighted as follows:

Name	Performance Shares Related to Return on Investment Metric	Performance Shares Related to Comparable Store Sales Metric	Performance Shares Related to International Division Revenue Growth Metric
H. Lee Scott, Jr.	60%	30%	10%
Thomas M. Schoewe	60%	30%	10%
Michael T. Duke	60%		40%
Eduardo Castro-Wright	60%	40%	

The CNGC must certify that the performance goals were attained prior to the vesting of any performance shares. Holders of performance shares do not earn dividends or enjoy other rights of shareholders with respect to such performance shares until such performance shares have vested. These performance shares will vest, if at all, upon certification of performance relative to the performance goals for the three-year period ending January 31, 2011. The CD&A provides additional information regarding the performance shares and the performance metrics used to determine if performance shares will vest and, if so, the number of Shares to vest.

(3) The amounts in this column represent Shares of restricted stock granted under the 2005 Stock Incentive Plan. These Shares of restricted stock vest based on the continued service of the NEO as an Associate through the vesting date. These Shares are scheduled to vest in three equal installments on the second, fourth, and fifth anniversary of the date of their grant, with the exception of Mr. Castro-Wright, whose Shares are scheduled to vest on the following dates: 9,623 Shares on each of January 21, 2010 and January 21, 2012, respectively; 42,034 Shares on January 21, 2011; and 51,688 Shares on January 21, 2013. During the period prior to their vesting, the NEOs awarded Shares of restricted stock may vote the Shares and receive dividends payable with respect to those Shares, but may not sell or otherwise dispose of those Shares until they vest. The restricted stock and all related rights will be forfeited by the NEO if the restricted stock does not vest.

(4) The grant date fair market value of the performance shares and Shares of restricted stock awarded is determined based on a per Share amount of $47.58, which is the fair market value, as defined in the 2005 Stock Incentive Plan, of the Shares as of the date of grant. As the NYSE was closed for trading on the date of grant, the fair market value was determined using the closing price on the prior trading day,

which was January 18, 2008.

(5) Mr. Menzer retired from Wal-Mart effective March 1, 2008 and, as a result, will not be eligible to receive any payments under the Management Incentive Plan with respect to fiscal 2009 and was not awarded any performance shares or restricted stock with respect to fiscal 2009.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(8)	Market Value of Shares or Units of Stock That Have Not Vested ($)(9)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(10)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(9)
H. Lee Scott, Jr.	70,220			39.875	1/13/2009	1,028,749	52,198,724	840,916	42,668,077
	219,931			54.5625	1/27/2010				
	459,284			50.70	3/07/2011				
	521,634			60.90	3/04/2012				
	605,327			51.92	1/08/2013				
	504,330	126,083 (1)		52.12	1/04/2014				
	203,400	135,601 (2)		53.35	1/02/2015				
	166,250	249,377 (3)		45.69	1/04/2016				
	79,229	316,914 (4)		47.96	1/21/2017				
Thomas M. Schoewe	25,200			54.5625	1/27/2010	267,900	13,593,246	166,162	8,431,060
	88,053			50.70	3/07/2011				
	102,407			60.90	3/04/2012				
	114,242			51.92	1/08/2013				
	95,823	23,956 (1)		52.12	1/04/2014				
	36,277	24,186 (2)		53.35	1/02/2015				
	31,516	47,276 (3)		45.69	1/04/2016				
	15,013	60,050 (4)		47.96	1/21/2017				
John B. Menzer (11)	34,482			39.875	1/13/2009	384,006	19,484,464	212,867	10,800,871
	35,739			54.5625	1/27/2010				
	130,741			50.70	3/07/2011				
	179,212			60.90	3/04/2012				
	211,865			51.92	1/08/2013				
	180,322	45,081 (1)		52.12	1/04/2014				
	70,242	46,829 (2)		53.35	1/02/2015				
	61,195	91,793 (3)		45.69	1/04/2016				
	29,187	116,747 (4)		47.96	1/21/2017				
Michael T. Duke	16,526			19.9688	7/31/2008	313,035	15,883,395	283,992	14,409,754
	20,062			39.875	1/13/2009				
	18,087			46.00	2/27/2010				
	86,672			50.70	3/07/2011				
	102,407			60.90	3/04/2012				
	110,335			51.92	1/08/2013				
	100,000	150,000 (5)		48.07	2/02/2013				
	99,240	24,810 (1)		52.12	1/04/2014				
	44,407	29,606 (2)		53.35	1/02/2015				
	47,275	70,913 (3)		45.69	1/04/2016				
	25,021	100,083 (4)		47.96	1/21/2017				
Eduardo Castro-Wright	41,108			46.22	9/06/2011	257,973	13,089,550	214,721	10,894,943
	17,025			55.80	1/10/2012				
	29,916			47.80	1/30/2013				
	16,354	4,089 (6)		52.40	1/08/2014				
	11,874	7,917 (7)		53.01	1/20/2015				
	34,143	51,215 (3)		45.69	1/04/2016				
	18,766	75,062 (4)		47.96	1/21/2017				

(1) These options vest and become exercisable on January 5, 2009.

(2) These options vest and become exercisable in equal installments on January 3, 2009 and 2010.

(3) These options vest and become exercisable in equal installments on January 5, 2009, 2010 and 2011.

(4) These options vest and become exercisable in equal installments on January 22, 2009, 2010, 2011 and 2012.

(5) These options vest and become exercisable in equal installments on February 3, 2008, 2009 and 2010.

(6) These options vest and become exercisable on January 9, 2009.

(7) These options vest and become exercisable in equal installments on January 21, 2009 and 2010.

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(8) The numbers in this column include Shares of restricted stock with service-based vesting requirements. These Shares of restricted stock held by the NEOs are scheduled to vest in amounts and on the dates shown in the following table:

Vesting Date	H. Lee Scott, Jr.	Thomas M. Schoewe	John B. Menzer	Michael T. Duke	Eduardo Castro-Wright
February 25, 2008					9,711
January 5, 2009	32,138	4,797	8,394	4,797	
January 30, 2009		45,662			
February 28, 2009		8,686			
January 3, 2010	29,639	5,291	10,239	6,476	
January 21, 2010	33,244	6,299		12,247	11,355
February 25, 2010					9,711
January 21, 2011		26,572			42,034
January 5, 2012		9,592			
January 21, 2012	33,244	6,299		12,248	9,623
January 3, 2013		10,580			
January 21, 2013	33,344	6,318		12,285	51,688
March 14, 2014	407,792				
December 7, 2014				81,243	
March 27, 2016			135,699		
February 22, 2020					9,014

The numbers in this column also include Shares of performance-based restricted stock for which the performance conditions have been satisfied, but which remain subject to service-based vesting requirements. These Shares of performance-based restricted stock held by the NEOs are scheduled to vest in amounts and on the dates shown in the following table:

t, Jr.	Thomas M. Schoewe	John B. Menzer	Michael T. Duke	Eduardo Castro-Wright
		114,837	91,869	57,418
9,674	82,682			

— — — — — (2,796) — —

— — — — — — — — —

— — — — 4,061 — — — 4,(

— — — — 36,898 — — — 36

— — — — 759 — — — 75

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36,382 — — — — — — — —

— 5 — — (8,403) — — — (8

—	(2)		—	—	1,511	—		—	—	1,5
—	—		—	—	(56,746)	—		—	—	(5
18,002,838	303	$	180	$—	$20,992	$(23,759)		$258	$—	$(2

See notes to condensed consolidated and combined financial statements.

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PJT Partners Inc.

Condensed Consolidated and Combined Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2016	2015
Operating Activities		
Net Income (Loss)	$(13,621)	$18,760
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities		
Equity-Based Compensation Expense	65,082	19,562
Depreciation Expense	3,726	2,897
Amortization Expense	8,204	7,948
Bad Debt Expense (Recovery)	2,438	(740)
Foreign Currency Transaction Gains	(255)	—
Deferred Taxes	(2,995)	—
Other Non-Cash Amounts Included in Net Income (Loss)	—	(392)
Cash Flows Due to Changes in Operating Assets and Liabilities		
Accounts Receivable	(15,406)	31,836
Receivable from Affiliates	—	(5,485)
Due from Blackstone	—	34,250
Other Assets	(3,836)	(981)
Accrued Compensation and Benefits	45,156	10,654
Accounts Payable, Accrued Expenses and Other Liabilities	(519)	19,978
Deferred Rent Liability	4,823	—
Taxes Payable	(495)	13
Deferred Revenue	4,687	(866)
Net Cash Provided by Operating Activities	96,989	137,434
Investing Activities		
Proceeds from Repayment of Note Issued to Employee	538	—
Purchases of Furniture, Equipment and Leasehold Improvements	(12,751)	(4,354)
Change in Restricted Cash	778	—
Net Cash Used in Investing Activities	(11,435)	(4,354)
Financing Activities		
Dividends	(2,796)	—
Tax Distributions	(5,751)	—
Principal Payments on Capital Lease Obligations	(66)	—
Employee Taxes Paid for Shares Withheld for Taxes	(256)	—
Net Decrease from Former Parent Company Investment	—	(149,922)
Net Cash Used in Financing Activities	(8,869)	(149,922)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,108)	—
Net Increase (Decrease) in Cash and Cash Equivalents	74,577	(16,842)
Cash and Cash Equivalents, Beginning of Period	82,322	38,533

Cash and Cash Equivalents, End of Period	$156,899	$21,691
Supplemental Disclosure of Cash Flows Information		
Payments for Income Taxes, including those to Former Parent	$7,195	$3,518
Supplemental Disclosure of Significant Non-Cash Activities		
Non-Cash Contributions from Former Parent	$4,061	$—

See notes to condensed consolidated and combined financial statements.

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PJT Partners Inc.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(All Dollars Are in Thousands, Except Share and Per Share Data, Except Where Noted)

1. ORGANIZATION

On October 7, 2014, the board of directors of the general partner of The Blackstone Group L.P. (the “former Parent” or “Blackstone”) approved a plan to separate Blackstone’s strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses from Blackstone and combine the separated business with PJT Capital (as defined below) to form PJT Partners (“PJT Partners” or the “Company”), which separation occurred on October 1, 2015.

On October 1, 2015, Blackstone distributed on a pro rata basis to its common unitholders all of the issued and outstanding shares of Class A common stock of PJT Partners Inc. held by it. This pro rata distribution is referred to as the “Distribution.” The separation of the PJT Partners business from Blackstone and related transactions, including the Distribution, the internal reorganization that preceded the Distribution and the acquisition by PJT Partners of PJT Capital LP (together with its general partner and their respective subsidiaries, “PJT Capital”) that occurred substantially concurrently with the Distribution, is referred to as the “spin-off.”

The spin-off, including the consummation of the acquisition of PJT Capital and the Distribution is described in Note 3. “Reorganization and Spin-off” and information regarding the Class A and Class B common stock issued in connection with the spin-off and Redeemable Non-Controlling Interests is described in Note 11. “Stockholders’ Equity” in the “Notes to Consolidated and Combined Financial Statements” in “Part II. Item 8. Financial Statements and Supplementary Data” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. As of September 30, 2016, there were 18,002,838 and 303 shares, respectively, of Class A common stock and Class B common stock issued and outstanding.

Following the spin-off, PJT Partners Inc. became the sole general partner of PJT Partners Holdings LP. PJT Partners Inc. owns less than 100% of the economic interest in PJT Partners Holdings LP, but has 100% of the voting power and controls the management of PJT Partners Holdings LP. As of September 30, 2016, the non-controlling interest was 47.3%.

PJT Partners delivers a wide array of strategic advisory, restructuring and special situations and private fund advisory and placement services to corporations, financial sponsors, institutional investors and governments around the world. The Company offers a balanced portfolio of advisory services designed to help its clients realize major corporate milestones and solve complex issues. Also, through the Park Hill Group, the Company provides private fund advisory and placement services for alternative investment managers, including private equity funds, real estate funds and hedge funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company prepared the accompanying unaudited condensed consolidated and combined financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q. The condensed consolidated and combined financial statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated and combined financial statements are presented fairly and that estimates made in preparing its condensed consolidated and combined financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated and combined financial statements should be read in conjunction with the audited consolidated and combined financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC. For a comprehensive disclosure of the Company's significant accounting policies, see Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated and Combined Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

PJT Partners Inc.

Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

(All Dollars Are in Thousands, Except Share and Per Share Data, Except Where Noted)

As the sole general partner of PJT Partners Holdings LP, PJT Partners Inc. operates and controls all of the business and affairs and consolidates the financial results of PJT Partners Holdings LP and its subsidiaries. The Company operates through the following subsidiaries: PJT Partners LP, Park Hill Group LLC, PJT Partners (UK) Limited and PJT Partners (HK) Limited.

The Company did not operate as an independent, stand-alone entity for all periods included in these condensed consolidated and combined financial statements. Prior to the spin-off on October 1, 2015, the Company's operations were included in Blackstone's results as they were historically managed as part of Blackstone, in conformity with GAAP. For periods prior to October 1, 2015, the accompanying condensed consolidated and combined financial statements were prepared on a stand-alone basis and were derived from the consolidated financial statements and accounting records of Blackstone. Prior to October 1, 2015, the condensed consolidated and combined financial statements included certain assets that were historically held at the Blackstone corporate level but were specifically identifiable or otherwise attributable to these financial statements, primarily goodwill and intangible assets. Additionally prior to October 1, 2015, Blackstone's net investment in PJT Partners is shown as Former Parent Company Investment in lieu of Stockholders' Equity in the condensed consolidated and combined financial statements.

All intercompany transactions have been eliminated for all periods presented.

The Condensed Consolidated and Combined Statements of Operations reflect intercompany expense allocations made to the Company by Blackstone for certain corporate functions and for shared services provided by Blackstone prior to October 1, 2015. Where possible, these allocations were made on a specific identification basis and, in other cases, these expenses were allocated by Blackstone based on a pro rata basis of headcount, usage or some other basis depending on the nature of the allocated cost. Expenses without a specific consumption based indicator were allocated based on revenues adjusted for factors such as the size and complexity of the business. See Note 10. "Transactions with Related Parties" for further information on expenses allocated by Blackstone.

Both the Company and Blackstone consider the basis on which the expenses were previously allocated to be a reasonable reflection of the utilization of services provided to or the benefit received by the Company during the periods presented prior to October 1, 2015. The allocations may not, however, reflect the expense the Company would have incurred as an independent, publicly traded company for the periods presented. Actual costs that may have been incurred if PJT Partners had been a stand-alone company would depend on a number of factors, including the chosen organizational structure, which functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure. Following the spin-off, the Company has been performing these functions using its own resources or purchased services. For an interim period, however, some of these functions may continue to be provided by Blackstone, pursuant to a transition services agreement for a period of 24 months with the option for Blackstone or the Company to terminate any given service with 60 days' notice. See Note 10. "Transactions with Related Parties" for further information on services provided by Blackstone to the Company for the three and nine months ended September 30, 2016.

Contingencies and Litigation

The Company records loss contingencies if (a) information available prior to issuance of the condensed consolidated and combined financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the condensed consolidated and combined financial statements, and (b) the amount of loss can be reasonably estimated. If one or both criteria for accrual are not met, but there is at least a reasonable possibility that a loss will occur, the Company does not record an accrual for a loss contingency but describes the contingency and provides detail, when possible, of the estimated potential loss or range of loss. If an estimate cannot be made, a statement to that effect is made. Costs incurred with defending matters are expensed as incurred. Accruals related to loss contingencies are recorded in Other Expenses in the Condensed Consolidated and Combined Statements of Operations.

PJT Partners Inc.

Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

(All Dollars Are in Thousands, Except Share and Per Share Data, Except Where Noted)

Insurance Reimbursements

Receipts from insurance reimbursements up to the amount of the losses recognized are considered recoveries. These recoveries are accounted for when they are probable of receipt. Insurance recoveries are not recognized prior to the recognition of the related loss. Any receivable for insurance recoveries is recorded separately from the corresponding liability, and only if recovery is determined to be probable and reasonably estimable. Insurance reimbursements are recorded in Other Expenses in the Condensed Consolidated and Combined Statements of Operations.

Recent Accounting Developments

In June 2014, the Financial Accounting Standards Board ("FASB") issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. The guidance introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations. Additional disclosures are required about assets recognized from the costs to obtain or fulfill a contract. As originally proposed, the guidance was effective prospectively for annual periods beginning after December 15, 2016 including interim periods within that reporting period. In recent re-deliberations, the FASB approved a one-year deferral of the effective date of this guidance, such that it will be effective for annual reporting periods beginning after December 31, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of the new guidance and the method of adoption on the condensed consolidated and combined financial statements.

In September 2015, the FASB issued guidance on measurement period adjustments with respect to business combinations. The amendments apply to entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. An entity is now required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, not on a retrospective basis as previously required. The amendments apply prospectively to adjustments to provisional amounts that occur in fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Adoption of this guidance did not have a material impact on the Company's condensed consolidated and combined financial statements.

In February 2016, the FASB issued new guidance regarding leases. The guidance requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Entities are also required to provide enhanced disclosure about leasing arrangements. The amendments retain lease classifications, distinguishing finance leases from operating leases, using criteria that are substantially similar for distinguishing capital leases from operating leases in previous guidance. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Adoption requires a modified retrospective approach. The Company is currently assessing the impact the adoption of this guidance will have on its condensed consolidated and combined financial statements.

In March 2016, the FASB issued amendments to the guidance on employee share-based payment accounting intended to improve the accounting for employee share-based payments. This amended guidance simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification in the statement of cash flows. The

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amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company elected to early adopt the new guidance in the second quarter of fiscal year 2016, which requires the Company to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of the adoption was the recognition of excess tax benefits in the Company's Provision for Taxes rather than Additional Paid-In Capital for all periods in the year ended December 31, 2016. As no excess tax benefits were previously recognized during the three months ended March 31, 2016, no adjustments are required to show the impact to the previously reported amounts in the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2016. Additionally, there were no previously unrecognized excess tax benefits. The Company elected to apply the presentation requirements for cash flows related to excess tax benefits retrospectively and prior periods have been adjusted to remove the amounts of excess tax benefits presented in operating and financing activities in the Condensed Consolidated and Combined Statements of Cash Flows. Such prior period adjustment was immaterial. Additionally, the Company has retrospectively included in financing activities on the Condensed Consolidated and Combined Statements of Cash Flows amounts for employee taxes paid in instances when the Company withheld shares for tax withholding purposes. The Company has elected to maintain its current accounting policy of estimating forfeitures in its computation of equity-based compensation expense. Upon the adoption of this guidance, the Company excluded the estimated impact of excess tax benefits and tax deficiencies from the calculation of assumed proceeds for determining diluted net income (loss) per share using the treasury stock method. There was no impact on net loss per share of Class A common stock.

In June 2016, the FASB issued guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Company is currently assessing the impact the adoption of this guidance will have on its condensed consolidated and combined financial statements.

3. BUSINESS COMBINATIONS

Acquisition of PJT Capital LP

On October 1, 2015, PJT Partners Holdings LP acquired all of the outstanding equity interests in PJT Capital LP. The effect of the transaction was a transfer of PJT Capital LP interests to PJT Partners Holdings LP in exchange for unvested PJT Partners Holdings LP units. No other consideration was transferred. This transaction was accounted for as a business combination and PJT Capital LP's operating results have been included in the Company's financial statements from the date of the transaction. The Company incurred $0.1 million of costs related to the acquisition which were included in Professional Fees in the Condensed Consolidated and Combined Statements of Operations in the fourth quarter of 2015.

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The following table summarizes the estimated allocation of the purchase price for PJT Capital LP at the acquisition date as well as measurement period adjustments to date:

	December 31, 2015	Measurement Period Adjustments	September 30, 2016
Assets			
Cash	$ 12,653	$ —	$ 12,653
Accounts Receivable	1,170	—	1,170
Furniture, Equipment and Leasehold Improvements	334	—	334
Other Assets	362	—	362
Intangible Assets	13,300	—	13,300
Deferred Tax Assets	—	3,483	3,483
Goodwill	6,896	(3,483)	3,413
	34,715	—	34,715
Liabilities			
Accrued Compensation and Benefits	29,424	—	29,424
Accounts Payable, Accrued Expenses and Other Liabilities	4,626	—	4,626
Taxes Payable	665	—	665
	34,715	—	34,715
Net Assets Acquired	$ —	$ —	$ —

The excess of the purchase price over the fair value of the net assets acquired of $3.4 million was recorded as goodwill. Goodwill includes the in-place workforce, which allows the Company to continue serving its existing client base, begin marketing to potential clients and avoid significant costs reproducing the workforce. The transaction did not result in goodwill for tax purposes.

The estimated fair value of the intangible assets acquired, which consist of PJT Capital LP's backlog of client assignments that existed at the time of the acquisition and trade name is based, in part, on a valuation using an income approach or market approach and has been included in Intangible Assets, Net in the Condensed Consolidated and Combined Statements of Financial Condition. The estimated fair value ascribed to the identifiable intangible assets is amortized on a straight-line basis over the estimated remaining useful lives of the assets over periods ranging between one and ten years.

The Condensed Consolidated and Combined Statements of Operations for the three and nine months ended September 30, 2016 include the results of PJT Capital LP. Supplemental information on an unaudited pro forma basis, as if the acquisition had been consummated as of January 1, 2014 is as follows:

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Total Revenues	$ 151,270	$ 326,264
Income (Loss) Before Provision for Taxes	$ 11,556	$ (433)
Net Income (Loss)	$ 12,666	$ (432)

The unaudited pro forma results of operations do not purport to represent what the Company's results of operations would actually have been had the acquisition occurred on January 1, 2014, or to project the Company's results of operations for any future period. Actual future results may vary considerably based on a variety of factors beyond the Company's control.

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The pro forma results include (a) the amortization of identifiable intangible assets of PJT Capital LP, and (b) the estimated income tax expense related to the historical earnings of PJT Capital LP, which as a result of the acquisition, would be subject to income tax at the effective tax rate of the Company.

Acquisition of Customer Mandates

On October 1, 2015, PJT Partners (UK) Limited, a subsidiary of the Company, purchased certain open customer mandates and other assets from a subsidiary of its former Parent. This transaction was accounted for as an asset acquisition. There were no capitalized transaction costs and the total purchase price was $1.5 million. The customer mandates acquired were recorded as intangible assets and are amortized over their estimated useful lives of one year. In connection with the transaction, the Company acquired $1.3 million of customer mandates and $0.2 million of other assets and liabilities, net.

4. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Included in Accounts Receivable are long-term receivables of $61.1 million and $62.6 million as of September 30, 2016 and December 31, 2015, respectively, related to placement fees that are generally paid in installments over a period of three to four years. There were no long-term receivables with affiliates as of September 30, 2016 or December 31, 2015. The carrying value of such long-term receivables approximates fair value. Long-term receivables are classified as Level II in the fair value hierarchy.

The Company does not have any long-term receivables on non-accrual status. Long-term receivables which were more than 90 days past due as of September 30, 2016 and December 31, 2015 were $2.9 million and $2.2 million, respectively.

Changes in the allowance for doubtful accounts related to long-term receivables are presented below:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Balance, Beginning of Period	$ —	$ 392
Bad Debt Expense (Recovery)	563	(392)
Balance, End of Period	$ 563	$ —

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying value of goodwill consist of the following:

Balance, December 31, 2015	$75,769
Purchase Accounting Adjustment (a)	(3,483)
Balance, September 30, 2016	$72,286

(a) During the three months ended March 31, 2016, the Company recorded $3.5 million of purchase accounting adjustments related to the acquisition of PJT Capital LP.

There have been no indicators of goodwill impairment since the Company's most recent annual assessment.

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Intangible Assets, Net consists of the following:

	September 30, 2016	December 31, 2015
Finite-Lived Intangible Assets		
Customer Relationships	$ 26,476	$ 26,476
Client Backlog	7,600	7,600
Trade Name	5,700	5,700
Client Mandates and Other	1,344	1,483
Accumulated Amortization	(25,733)	(17,613)
Intangible Assets, Net	$ 15,387	$ 23,646

Amortization expense was $2.6 million and $8.2 million for the three and nine months ended September 30, 2016, respectively, and $6.6 million and $7.9 million for the three and nine months ended September 30, 2015, respectively.

During the three and nine months ended September 30, 2015, the Company recorded an impairment charge of $6.0 million related to certain customer relationship assets established at the time of Blackstone’s initial public offering. Such charge was included in Depreciation and Amortization in the Condensed Consolidated and Combined Statements of Operations.

Amortization of intangible assets held at September 30, 2016 is expected to be $9.0 million for the year ending December 31, 2016 and $2.3 million for each of the years ending December 31, 2017, 2018, 2019 and 2020. The intangible assets as of September 30, 2016 are expected to amortize over a weighted-average period of 8.9 years.

6. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, Equipment and Leasehold Improvements, Net consists of the following:

	September 30, 2016	December 31, 2015
Office Equipment	$ 1,892	$ 1,873
Leasehold Improvements	32,896	23,330
Furniture and Fixtures	11,240	9,119
Accumulated Depreciation	(6,495)	(2,832)
Furniture, Equipment and Leasehold Improvements,	$ 39,533	$ 31,490

Net

Depreciation expense was $1.4 million and $3.7 million for the three and nine months ended September 30, 2016, respectively. Depreciation expense, including allocations from the former Parent, was $1.2 million and $2.9 million for the three and nine months ended September 30, 2015, respectively.

7. INCOME TAXES

The Company's operations were included in Blackstone subsidiaries' U.S. federal, state and foreign tax returns for taxable periods ending before the Company's spin-off and separation from Blackstone on October 1, 2015. With respect to such taxable periods, the Company's income taxes were calculated on a separate tax return basis. For subsequent periods, the Company is filing tax returns as a stand-alone entity, and its deferred taxes and effective tax rates differ from those of the historical periods.

The Company's effective tax rate was -427.3% and -43.7% for the three and nine months ended September 30, 2016, respectively, and 4.5% and 17.5% for the three and nine months ended September 30, 2015.

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The Company's income tax provision was $8.4 million and $4.1 million for the three and nine months ended September 30, 2016, respectively, and $2.0 million and $4.0 million for the three and nine months ended September 30, 2015, respectively.

The Company's effective tax rate for the three months ended September 30, 2016 was largely due to the use of the actual year-to-date rate as of September 30, 2016 in determining tax expense in comparison to using an annualized effective tax rate in determining tax expense for the six months ended June 30, 2016. The Company's effective tax rate for the three and nine months ended September 30, 2016 was also attributable to corporate entities subject to U.S. federal, state, local and foreign income taxes; to non-corporate entities that are subject to New York City Unincorporated Business Tax ("UBT") and to certain compensation charges and other pretax charges that are not deductible for tax purposes. Despite a GAAP Net Loss for both the three and nine months ended September 30, 2016, the Company had taxable income as a result of the addback of permanent differences, primarily related to the amortization of equity compensation.

The Company's effective tax rate for the three and nine months ended September 30, 2015 was largely attributable to foreign income tax, New York City UBT and to certain compensation charges that are not deductible for tax purposes.

As of September 30, 2016, the Company had no unrecognized tax benefits.

8. NET LOSS PER SHARE OF CLASS A COMMON STOCK

Basic and diluted net loss per share of Class A common stock for the three and nine months ended September 30, 2016 is presented below:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Numerator:		
Net Loss	$(10,336)	$(13,621)
Net Loss Attributable to Redeemable Non-Controlling Interests	(625)	(3,842)
Net Loss Attributable to PJT Partners Inc.	$(9,711)	$(9,779)
Denominator:		
Weighted-Average Shares of Class A Common	18,319,785	18,282,180

Stock Outstanding — Basic and Diluted		
Net Loss Per Share of Class A Common Stock — Basic and Diluted	$(0.53)	$(0.53)

The allocation of income (loss) between holders of shares of Class A common stock and the Redeemable Non-Controlling Interests began following the spin-off on October 1, 2015.

Class A partnership units in PJT Partners Holdings LP (“Partnership Units”) may be exchanged for PJT Partners Inc. Class A common stock on a one-for-one basis, subject to applicable lock-up, vesting and transfer restrictions. If all Partnership Units were exchanged for Class A common stock, fully diluted Class A common stock outstanding would be 34,511,765 and 34,407,364 for the three and nine months ended September 30, 2016, respectively. In computing the dilutive effect, if any, that the aforementioned exchange would have on net income (loss) per share, net income (loss) attributable to holders of Class A common stock would be adjusted due to the elimination of the non-controlling interests associated with the Partnership Units (including any tax impact). For the three and nine months ended September 30, 2016, such exchange is not reflected in diluted net income (loss) per share as the assumed exchange is not dilutive.

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During the three and nine months ended September 30, 2016, unvested restricted stock units ("RSUs"), participating RSUs and Partnership Units were all determined to be anti-dilutive and excluded from the calculation of net loss per share of Class A common stock. The following amounts would have been included in this calculation if their effect were dilutive for the three and nine months ended September 30, 2016:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Weighted-Average Unvested RSUs	2,202,324	1,821,987
Weighted-Average Participating RSUs	706,257	749,963
Weighted-Average Partnership Units	16,191,980	16,125,184

9. EQUITY-BASED COMPENSATION

Overview

Until the consummation of the spin-off, certain of the Company's employees participated in Blackstone's equity compensation plans. The equity-based compensation expense recorded by the Company for the periods presented prior to October 1, 2015 includes the expense associated with the employees historically attributable to the Company's operations. As the equity-based compensation plans were Blackstone's plans, the amounts were previously recognized within Former Parent Company Investment and Due from Blackstone in the Condensed Consolidated and Combined Statements of Financial Condition.

Further information regarding equity-based compensation awards granted in connection with the spin-off is described in Note 10. "Equity-Based Compensation" in the "Notes to Consolidated and Combined Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The following table represents stock-based compensation expense and related income tax benefits for the three and nine months ended September 30, 2016 and 2015, respectively:

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2016	2015	2016	2015
Stock-Based Compensation Expense	$22,897	$4,421	$65,082	$44,920
Income Tax Benefit	$2,745	$27	$7,835	$123

2015 Omnibus Incentive Plan

On October 1, 2015, the Company adopted the PJT Partners Inc. 2015 Omnibus Incentive Plan (the “PJT Equity Plan”) for the purpose of providing incentive compensation measured by reference to the value of the Company’s common stock or Partnership Units. The PJT Equity Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, partnership interests and other stock-based or cash-based awards. The Company has initially authorized 12.2 million shares of Class A common stock for issuance under the PJT Equity Plan.

Restricted Stock Units

Pursuant to the PJT Equity Plan and in connection with the Company’s spin-off from Blackstone, annual compensation process and ongoing hiring process, the Company has issued shares of RSUs, which generally vest over a service life of two to five years. Awards are forfeited if the employee ceases to be employed by the Company prior to vesting or does not meet the requisite service requirement.

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A summary of the status of the Company's unvested RSUs in PJT Partners Inc. and PJT Partners Holdings LP as of September 30, 2016 and of changes during the period January 1, 2016 through September 30, 2016 is presented below:

	Restricted Stock Units			
	PJT Partners Inc.		PJT Partners Holdings LP	
	Number of Units	Weighted-Average Grant Date Fair Value (in dollars)	Number of Partnership Units	Weighted-Average Grant Date Fair Value (in dollars)
Balance, December 31, 2015	5,344,573	$ 20.98	554,850	$ 23.73
Granted	645,107	27.12	—	—
Vested	(66,715)	15.83	(111,161)	16.33
Forfeited	(225,182)	23.65	—	—
Dividends Reinvested on Participating RSUs	2,442	24.71	—	—
Balance, September 30, 2016	5,700,225	$ 21.63	443,689	$ 25.58

As of September 30, 2016, there was $80.4 million of estimated unrecognized compensation expense related to unvested RSU awards. The Company assumes a forfeiture rate of 1.0% to 16.7% annually based on expected turnover and periodically reassesses this rate. This cost is expected to be recognized over a weighted-average period of 1.5 years.

Partnership Units

In connection with the spin-off on October 1, 2015, Blackstone underwent an internal reorganization, pursuant to which the operations that had historically constituted Blackstone's Financial Advisory reporting segment, other than Blackstone's capital markets services business, were contributed to PJT Partners Holdings LP, a newly-formed holding partnership that became controlled by PJT Partners Inc., as general partner. In the internal reorganization, the limited partners of the holding partnerships that owned Blackstone's operating subsidiaries and certain individuals engaged in the Company's business received Class A common stock of PJT Partners Inc., as well as Partnership Units that, subject to certain terms and conditions, are redeemable at the option of the holder for cash, or, at the Company's election, for shares of PJT Partners Inc. Class A common stock on a one-for-one basis. These Partnership Units generally vest over a service life of five years.

A summary of the status of the Company's unvested Partnership Units as of September 30, 2016 and of changes during the period January 1, 2016 through September 30, 2016 is presented below:

	Partnership Units	
	Number of Partnership Units	Weighted-Average Grant Date Fair Value (in dollars)
Balance, December 31, 2015	5,315,000	$ 21.00
Granted	320,228	26.21
Forfeited	(63,871)	28.29
Balance, September 30, 2016	5,571,357	$ 21.22

As of September 30, 2016, there was $82.1 million of estimated unrecognized compensation expense related to unvested Partnership Units. The Company assumes a forfeiture rate of 5.5% annually based on expected turnover and periodically reassesses this rate. This cost is expected to be recognized over a weighted-average period of 2.3 years.

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Equity-Based Awards with Both Service and Market Conditions

In connection with the spin-off, the Company also granted equity-based awards containing both service and market conditions. The effect of the market condition is reflected in the grant date fair value of the award. Compensation cost is recognized over the requisite service period, provided that the service period is completed, irrespective of whether the market condition is satisfied.

In connection with the spin-off, the Company issued 6,530,048 equity-based awards with a service condition requirement over five years with 20% vesting in the third year, 30% in the fourth year and 50% in the fifth year. The market condition requirement will be satisfied upon the publicly traded shares of Class A common stock achieving certain volume-weighted average share price targets over any consecutive 30-day trading period following the consummation of the spin-off, pro-ratably at $48, $55, $63, $71 and $79 per share of Class A common stock.

The market condition requirements must be met prior to the sixth anniversary of the consummation of the spin-off. No portion of these awards will become vested until both the service and market conditions have been satisfied.

A summary of the status of the Company's unvested equity-based awards in PJT Partners Holdings LP with both a service and market condition as of September 30, 2016 and of changes during the period January 1, 2016 through September 30, 2016 is presented below:

	Equity-Based Awards with Both Service and Market Conditions	
	Number of Partnership Units	Weighted-Average Grant Date Fair Value (in dollars)
Balance, December 31, 2015	6,530,048	$ 5.72
Forfeited	(26,584)	5.72
Balance, September 30, 2016	6,503,464	$ 5.72

As of September 30, 2016, there was $24.4 million of estimated unrecognized compensation expense related to equity-based awards with both a service and market condition. The Company assumes a forfeiture rate of 5.5%

annually based on expected turnover and periodically reassesses this rate. This cost is expected to be recognized over a weighted-average period of 2.7 years.

Units Expected to Vest

The following unvested units, after expected forfeitures, as of September 30, 2016, are expected to vest:

	Units	Weighted-Average Service Period in Years
Partnership Units	10,846,462	2.5
Restricted Stock Units	5,673,576	1.5
Total Equity-Based Awards	16,520,038	2.2

10. TRANSACTIONS WITH RELATED PARTIES

Prior to the spin-off on October 1, 2015, the Company was managed and operated in the normal course of business with other affiliates of Blackstone. Accordingly, certain shared costs were allocated to the Company and reflected as expenses in the stand-alone Condensed Consolidated and Combined Statements of Operations.

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Management of Blackstone and the Company considered the allocation methodologies used to be reasonable and appropriate reflections of the historical expenses attributable to the Company for purposes of the stand-alone financial statements. The expenses reflected in the Condensed Consolidated and Combined Statements of Operations may not be indicative of expenses that will be incurred by the Company in the future.

Following the spin-off on October 1, 2015, Blackstone is no longer an affiliate of the Company. Accordingly, for periods subsequent to October 1, 2015, revenues earned from Blackstone are no longer reported as Revenues Earned from Affiliates in the Condensed Consolidated and Combined Statements of Operations and receivables from Blackstone are no longer included in Receivable from Affiliates in the Condensed Consolidated and Combined Statements of Financial Condition.

During the nine months ended September 30, 2016, the Company recorded $0.3 million related to certain professional fees payable to Blackstone. No such fees were recorded during the three months ended September 30, 2016. As of September 30, 2016, the Company had amounts payable to Blackstone for such expenses of $0.3 million.

Certain purchases of furniture, equipment and leasehold improvements were paid by Blackstone on the Company's behalf. The Company had amounts payable to Blackstone for such costs of $5.5 million and $4.0 million as of September 30, 2016 and December 31, 2015, respectively, which is offset by certain amounts that Blackstone has agreed to pay pursuant to the spin-off.

On December 31, 2015, a client remitted a $4.5 million payment to Blackstone in settlement of an accounts receivable balance instead of the Company. Blackstone subsequently wired such amount to the Company on January 4, 2016. As of December 31, 2015, such amount was included in Accounts Receivable in the Condensed Consolidated and Combined Statements of Financial Condition.

Revenues Earned from Affiliates

There were no Advisory Fees earned from affiliates for the three and nine months ended September 30, 2016. Advisory Fees earned from affiliates totaled $0.8 million and $4.2 million for the three and nine months ended September 30, 2015, respectively, representing 0.7% and 1.9% of total Advisory Fees, respectively. There were no Placement Fees earned from affiliates for the three and nine months ended September 30, 2016. Placement Fees earned from affiliates totaled $3.0 million and $14.3 million for the three and nine months ended September 30, 2015, respectively, representing 10.7% and 18.8% of total Placement Fees, respectively. These fees were earned in the ordinary course of business.

There was no Interest Income earned from affiliates for the three and nine months ended September 30, 2016. Interest Income earned from affiliates totaled $0.1 million and $0.2 million for the three and nine months ended September 30, 2015, respectively.

Corporate Allocations

Prior to the spin-off on October 1, 2015, Blackstone historically provided the Company with various office facilities, administrative and operational support services at cost. Such expenses were historically allocated to the Company based upon an established methodology appropriate to the expense. Under this methodology, expenses incurred by support service groups were allocated based upon agreed expense drivers. Example allocation methodologies included time and labor studies and proportional usage, headcount or square footage measures. Additionally, Blackstone incurred expenses on behalf of the Company that were specifically attributed to the Company. Such expenses were comprised principally of compensation and benefits, occupancy and office services, communications and information services, research and professional fees. The Company reimbursed Blackstone for its share of all such expenses paid on its behalf.

Additionally, Blackstone previously provided bill paying, payroll, cash management and foreign currency risk services on behalf of the Company. These arrangements generated amounts due to or due from Blackstone which

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were previously reflected in Due from Blackstone in the Condensed Consolidated and Combined Statements of Financial Condition.

Management believes the assumptions underlying the condensed consolidated and combined financial statements for periods presented prior to October 1, 2015 are reasonable. Nevertheless, the condensed consolidated and combined financial statements may not have included all of the actual expenses that would have been incurred and may not have reflected the Company's combined results of operations, financial position and cash flows had it been a stand-alone company during the periods presented. Actual costs that would have been incurred if PJT Partners Inc. had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

Agreements with Blackstone

Transition Services Agreement

In connection with the spin-off, the Company entered into a Transition Services Agreement with Blackstone under which Blackstone or its respective affiliates may provide the Company with certain services for a period of up to 24 months from the date of the spin-off (subject to the earlier termination of the agreement or any or all of the services provided thereunder in the circumstances set forth therein) to help ensure an orderly transition for each of the Company and Blackstone following the distribution. Pursuant to the Transition Services Agreement, Blackstone agreed to provide the Company certain finance, information technology, human resources and compensation, facilities, legal and compliance, external relations and public company services. The Company pays Blackstone for any such services at agreed amounts as set forth in the Transition Services Agreement. In addition, from time to time during the term of the agreement, the Company and Blackstone may mutually agree on additional services to be provided by Blackstone to the Company at pricing based on market rates that are reasonably agreed by the parties.

The Company had amounts payable to Blackstone with respect to the Transition Services Agreement of $0.1 million and $0.5 million as of September 30, 2016 and December 31, 2015, respectively.

Employee Matters Agreement

In connection with the spin-off, the Company entered into an Employee Matters Agreement with Blackstone that governs the respective rights, responsibilities and obligations of the parties from and after the spin-off with respect to employee-related liabilities and the Company's respective retirement plans, nonqualified deferred compensation plans, health and welfare benefit plans and equity-based compensation plans (including the treatment of outstanding awards thereunder). The Employee Matters Agreement generally provides for the allocation and treatment of assets, account balances and liabilities, as applicable, arising out of incentive plans, retirement plans, nonqualified deferred compensation plans and employee health and welfare benefit programs in which the Company's employees participated prior to the spin-off.

The Company retained or otherwise assumed all liabilities for current and former employees and employees of Blackstone who became the Company's employees upon consummation of the spin-off. Blackstone retained or otherwise assumed liabilities with respect to the employment, service, termination of employment or termination of service of its former employees who, immediately prior to their separation from Blackstone, primarily provided services in respect of the Company's business (except that the Company assumed certain specified liabilities). For at least 12 months following the spin-off, each individual who remains employed by the Company will receive (a) a base salary and bonus opportunity that generally are no less favorable in aggregate than those provided immediately before the spin-off, and (b) other compensation and employee benefits that are substantially similar in the aggregate to those in effect immediately prior to the spin-off. The Company assumed all annual cash incentive arrangements with respect to the Company's personnel and adopted new welfare, 401(k) and similar plans for the Company's personnel. However, Blackstone reimbursed the Company for the amount of 2015 annual incentive compensation that was accrued by Blackstone for such employees prior to the spin-off date.

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Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

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The Company is required to reimburse Blackstone for the value of forfeited unvested equity awards granted to former Blackstone employees that transitioned to PJT Partners in connection with the spin-off. Such reimbursement is recorded in Accounts Payable, Accrued Expenses and Other Liabilities with an offset to equity in the Condensed Consolidated and Combined Statements of Financial Condition. The Company will cash settle the liability to Blackstone quarterly as the forfeitures attributable to these employees crystallize. The accrual for these forfeitures was $0.6 million and $1.3 million as of September 30, 2016 and December 31, 2015, respectively.

Pursuant to the Employee Matters Agreement, the Company has agreed to pay Blackstone the net realized cash benefit resulting from certain compensation related tax deductions. The amount payable to Blackstone relating to the tax deductions has been recorded in Other Expenses in the Condensed Consolidated and Combined Statements of Operations and is payable annually within nine months of the end of the relevant tax period. As of September 30, 2016, the Company had accrued $3.4 million, which the Company anticipates will be payable to Blackstone during the third quarter of 2017. The tax deduction and corresponding payable to Blackstone related to such deliveries will fluctuate primarily based on the price of Blackstone common units at the time of delivery.

Tax Matters Agreement

The Company entered into a Tax Matters Agreement with Blackstone that governs the respective rights, responsibilities and obligations of the Company and Blackstone after the spin-off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. federal, state, local and foreign income taxes, other tax matters and related tax returns. The Company has joint and several liability with Blackstone to the Internal Revenue Service (“IRS”) for the consolidated U.S. federal income taxes of the Blackstone consolidated group relating to the taxable periods in which the Company was part of that group. However, the Tax Matters Agreement specifies the portion, if any, of this tax liability for which the Company bears responsibility, and Blackstone agrees to indemnify the Company against any amounts for which the Company is not responsible. The Tax Matters Agreement also provides special rules for allocating tax liabilities in the event that the spin-off is determined not to be tax-free. Though valid as between the parties, the Tax Matters Agreement is not binding on the IRS.

Exchange Agreement

The Company entered into an exchange agreement with the limited partners of PJT Partners Holdings LP pursuant to which they (or certain permitted transferees) have the right, subject to the terms and conditions set forth in the limited partnership agreement of PJT Partners Holdings LP, on a quarterly basis, from and after the first anniversary of the date of the consummation of the spin-off (subject to the terms of the exchange agreement), to exchange all or part of their Partnership Units for cash, or, at the Company’s election, for shares of PJT Partners Inc. Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. The price per Partnership Unit to be received in a cash-settled exchange will be equal to the fair value of a share of PJT Partners Inc. Class A common stock (determined in accordance with and subject to adjustment under the exchange agreement). In the event cash-settled exchanges of Partnership Units are funded with new issuances of Class A common stock, the fair value of a share of PJT Partners Inc. Class A common stock will be deemed to be equal to the net proceeds per share of Class A common stock received by PJT Partners Inc. in the related issuance. Accordingly, in this event, the price per Partnership Unit to which an exchanging Partnership Unitholder will be entitled may be greater than or less than the then-current market value of PJT Partners Inc. Class A common stock. The exchange agreement also provides that a holder of Partnership Units will not have the right to exchange Partnership Units in the event that PJT Partners Inc. determines that such exchange would be prohibited by law, or would result in any breach of any debt agreement or other material contract of PJT Partners Inc. or PJT Partners Holdings LP.

Certain Partnership Unitholders have provided notice to exchange 594,072 Partnership Units. The Company settled the exchange of these Partnership Units on November 8, 2016 for an aggregate payment of $16.1 million with cash from the Company's working capital. The price per Partnership Unit paid by the Company was $27.02, which is equal to the volume-weighted average price of a share of the Company's Class A common stock on November 3, 2016.

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Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

(All Dollars Are in Thousands, Except Share and Per Share Data, Except Where Noted)

Registration Rights Agreement

The Company entered into a registration rights agreement with the limited partners of PJT Partners Holdings LP pursuant to which the Company granted them, their affiliates and certain of their transferees the right, under certain circumstances and subject to certain restrictions, to require the Company to register under the Securities Act shares of Class A common stock delivered in exchange for Partnership Units.

Promissory Note

As of December 31, 2015, there was a $0.6 million unsecured promissory note from an employee held by the Company. The outstanding principal balance and accrued interest was included in Other Assets in the Condensed Consolidated and Combined Statements of Financial Condition. The promissory note bore a variable interest rate of the prime rate less one percent per annum, determined as of the date of the promissory note and then on the twentieth day of each month thereafter until the promissory note was repaid. During the three months ended March 31, 2016, the promissory note was repaid.

Aircraft Lease

On occasion, certain of the Company's executive officers, employees and their families may make use of aircraft in which the Company owns a fractional interest (the "Aircraft"). Any such personal use of the Aircraft is charged to the executive officer or employee based on market rates and usage. The amount is not material to the condensed consolidated and combined financial statements.

11. COMMITMENTS AND CONTINGENCIES

Commitments

Line of Credit

On October 1, 2015, PJT Partners Holdings LP entered into a Loan Agreement (the "Loan Agreement") and related documents with First Republic Bank. The Loan Agreement provides for a revolving credit facility with aggregate commitments in an amount equal to $60.0 million, which aggregate commitments may be increased, on the terms and subject to the conditions set forth in the Loan Agreement, to up to $80.0 million during the period beginning December 1 each year through March 1 of the following year. The revolving credit facility will mature and the commitments thereunder will terminate on October 2, 2017. The proceeds of the revolving credit facility are available for working capital and general corporate purposes. Interest on the borrowings is based on the prime rate minus 1.0% and undrawn commitments bear a commitment fee. The Loan Agreement contains customary representations, covenants and events of default. Financial covenants consist of a minimum consolidated tangible net worth, maximum leverage ratio, minimum consolidated liquidity ratio and limitation on additional indebtedness, each tested quarterly.

On October 10, 2016, PJT Partners Holdings LP entered into a Renewal Agreement (the “Renewal Agreement”) and related documents with First Republic Bank, amending the terms of the Company’s revolving credit facility under the Loan Agreement. The Renewal Agreement provides for a one-year extension of the maturity of the revolving credit facility to October 2, 2018.

As of September 30, 2016, there were no borrowings under the revolving credit facility and the Company was in compliance with the debt covenants.

Leases

The Company leases office space under non-cancelable lease agreements, which expire at various dates through 2030. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord and are recognized on a straight-line basis over the term of the lease agreement.

PJT Partners Inc.

Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

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Total rent expense was $5.9 million and $18.5 million for the three and nine months ended September 30, 2016, respectively. Total rent expense, including allocations from the former Parent, was $10.1 million and $23.3 million for the three and nine months ended September 30, 2015, respectively. Rent expense is included in Occupancy and Related in the Condensed Consolidated and Combined Statements of Operations. These amounts include variable operating escalation payments, which are paid when invoiced.

As of September 30, 2016, the Company maintained an irrevocable standby letter of credit for certain operating leases of $4.8 million and as of December 31, 2015, the Company's former Parent maintained an irrevocable standby letter of credit of $5.5 million.

Capital lease obligations recorded are payable through 2021 at a weighted-average interest rate of 2.3%. The net book value of all assets recorded under capital leases aggregated $0.4 million as of September 30, 2016 and December 31, 2015.

As of September 30, 2016, the aggregate minimum future payments required on non-cancelable leases are as follows:

	Minimum Lease Payments	
Year Ending December 31,	Capital	Operating
2016	$25	$5,713
2017	102	23,018
2018	102	20,789
2019	102	20,204
2020	78	19,257
Thereafter	3	127,128
Total Minimum Lease Payments	412	216,109
Less: Amount Representing Interest	19	
Capital Lease Obligation	$393	
Less: Sublease Proceeds		20,196
Net Minimum Lease Payments		$195,913

Litigation

From time to time, the Company is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Some of these matters may involve claims of substantial amounts. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, after consultation with external counsel, the Company believes it is not probable and/or reasonably possible that any current legal proceedings or claims would individually or in the aggregate have a material adverse effect on the condensed consolidated and combined financial statements of the Company.

As previously disclosed, the Company terminated Andrew Caspersen on March 28, 2016 after learning of a number of unauthorized and unlawful transactions outside the scope of his employment with Park Hill. The Company previously recorded an expense of $8.9 million, which represents the amount that was considered to be probable and reasonably estimable. This charge as well as a related insurance reimbursement of $5.6 million deemed probable of receipt were recorded during the three months ended March 31, 2016. The Company paid $8.1 million related to the charge during the three months ended September 30, 2016 and paid an additional $0.5 million during October 2016. Additionally, the Company received the $5.6 million insurance reimbursement in October 2016.

With respect to potential additional claims related to funds fraudulently obtained by Mr. Caspersen, the Company believes that any such claims would be without merit and would vigorously defend any such actions.

For other matters, including the litigation discussed under the caption “Legal Proceedings” elsewhere in this report, the Company is not currently able to estimate the possible loss or range of loss. The Company is often unable

PJT Partners Inc.

Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

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to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support such an assessment, including quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by courts on motions or appeals, analysis by experts or the status of any settlement negotiations.

Indemnification

The Company enters into contracts, including contracts with Blackstone relating to the spin-off, that contain a variety of indemnifications. The Company's maximum exposure under these arrangements is not known. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

12. EMPLOYEE BENEFIT PLANS

The Company contributes to employer sponsored defined contribution plans for certain employees, subject to eligibility and statutory requirements. The Company incurred expenses with respect to these defined contribution plans in the amounts of $0.2 million and $0.6 million for the three and nine months ended September 30, 2016, respectively, and $0.1 million and $0.4 million for the three and nine months ended September 30, 2015, respectively, which are included in Compensation and Benefits in the Condensed Consolidated and Combined Statements of Operations.

13. REGULATED ENTITIES

Certain subsidiaries of the Company are subject to various regulatory requirements in the United States, United Kingdom and Hong Kong, which specify, among other requirements, minimum net capital requirements for registered broker-dealers.

PJT Partners LP is a registered broker-dealer through which strategic advisory and restructuring and special situations services are conducted in the United States and is subject to the net capital requirements of Rule 15c3 1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). PJT Partners LP computes net capital based upon the aggregate indebtedness standard, which requires the maintenance of minimum net capital, as defined, which shall be the greater of $100 thousand or 6 2/3% of aggregate indebtedness, as defined, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. PJT Partners LP had net capital of $80.4 million and $10.3 million as of September 30, 2016 and December 31, 2015, respectively, which exceeded the minimum net capital requirement by $79.6 million and $9.3 million, respectively.

Park Hill Group LLC is a registered broker-dealer through which private fund advisory and placement services are conducted in the United States and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act.

Park Hill Group LLC elected to adopt the alternative standard, which defines minimum net capital as the greater of $250 thousand or 2% of aggregate debit items computed in accordance with the reserve requirement. Park Hill Group LLC had net capital of $17.0 million and $19.0 million as of September 30, 2016 and December 31, 2015, respectively, which exceeded the minimum net capital requirement by $16.7 million and $18.8 million, respectively.

PJT Partners LP and Park Hill Group LLC do not carry customer accounts and do not otherwise hold funds or securities for, or owe money or securities to, customers and, accordingly, are both exempt from the SEC Customer Protection Rule (Rule 15c3 3).

PJT Partners (UK) Limited is licensed with the United Kingdom’s Financial Conduct Authority and is required to maintain regulatory net capital of €50 thousand. PJT Partners (HK) Limited is licensed with the Hong Kong Securities and Futures Commission and is subject to a minimum liquid capital requirement of HK$3 million. As of September 30, 2016 and December 31, 2015, both of these entities were in compliance with local capital adequacy requirements.

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Notes to Condensed Consolidated and Combined Financial Statements – Continued (Unaudited)

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14. BUSINESS INFORMATION

The Company's activities providing strategic advisory, restructuring and special situations and private fund advisory and placement services constitute a single reportable segment. An operating segment is a component of an entity which conducts business, incurs revenues and expenses for which discrete financial information is available that is reviewed by the chief operating decision maker in assessing performance and making resource allocation decisions. The Company has a single operating segment and therefore a single reportable segment.

The Company is organized as one operating segment in order to maximize the value of our advice to clients by drawing upon the diversified expertise and broad relationships of our senior professionals across the Company. The chief operating decision maker assesses performance and allocates resources based on broad considerations including the market opportunity, available expertise across the Company and the strength and efficacy of professionals' collaboration, and not based upon profit or loss measures for the Company's separate product lines.

Since the financial markets are global in nature, the Company generally manages its business based on the operating results of the Company taken as a whole, not by geographic region. The following tables set forth the geographical distribution of revenues and assets based on the location of the office that generates the revenues or holds the assets and therefore may not be reflective of the geography in which the Company's clients are located.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Domestic	$104,283	$142,981	$302,045	$286,393
International	17,063	4,341	23,889	15,723
Total	$121,346	$147,322	$325,934	$302,116

	September 30, 2016	December 31, 2015
Assets		
Domestic	$ 516,828	$ 444,040
International	42,971	23,212
Total	$ 559,799	$ 467,252

The Company is not subject to any material concentrations with respect to its revenues for the three and nine months ended September 30, 2016 and 2015, or credit risk with respect to its accounts receivable as of September 30, 2016 and December 31, 2015.

15. SUBSEQUENT EVENTS

The Board of Directors of PJT Partners Inc. has declared a quarterly dividend of $0.05 per share of Class A common stock, which will be paid on December 21, 2016 to Class A common stockholders of record on December 7, 2016.

The Company did not identify any other subsequent events besides those described in Notes 10 and 11.

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ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with PJT Partners' Condensed Consolidated and Combined Financial Statements and the related notes included in this Quarterly Report on Form 10 Q.

The financial statements, which are discussed below, reflect the historical financial condition, results of operations and cash flows of the strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses of Blackstone for periods presented prior to October 1, 2015, the date that the spin-off and related transactions were completed. The financial information discussed below and included in this Quarterly Report on Form 10-Q may not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been a stand-alone company during the periods presented or what our financial condition, results of operations and cash flows may be in the future.

Our Business

PJT Partners is a global advisory-focused investment bank. Our team of senior professionals delivers a wide array of strategic advisory, restructuring and special situations and private fund advisory and placement services to corporations, financial sponsors, institutional investors and governments around the world. We offer a balanced portfolio of advisory services designed to help our clients realize major corporate milestones and solve complex issues. We also provide, through Park Hill Group, private fund advisory and placement services for alternative investment managers, including private equity funds, real estate funds and hedge funds.

We have world-class franchises in each of the areas in which we compete. Our strategic advisory line of business, established in 1985, offers a broad range of financial advisory and transaction execution capability, including mergers and acquisitions ("M&A"), joint ventures, minority investments, asset swaps, divestitures, takeover defenses, corporate finance advisory, private placements and distressed sales. Our restructuring and special situations line of business, established in 1991, is one of the world's leading advisors in restructurings and recapitalizations around the globe. With vast expertise in highly complex capital structure challenges, our Restructuring and Special Situations Group's services include advising companies, creditors and financial sponsors on recapitalizations, reorganizations, exchange offers, debt repurchases, capital raises and distressed mergers and acquisitions. Park Hill Group, our private fund advisory and placement line of business, is a world-leading fund placement agent and has provided private fund advisory and placement services for a diverse range of investment strategies since its inception in 2005. Moreover, Park Hill Group is the only group among its peers with top-tier dedicated private equity, hedge fund, real estate and secondary advisory groups.

Spin-off from Blackstone

On October 1, 2015, in connection with the spin-off, several transactions took place which impacted the Company's condensed consolidated and combined financial statements.

See Note 3. "Reorganization and Spin-off" and Note 11. "Stockholders' Equity" in the "Notes to Consolidated and Combined Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for further information.

Business Environment

Economic and global financial conditions can materially affect our operational and financial performance. See "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of some of the factors that can affect our performance.

M&A is a cyclical business which is impacted by macroeconomic conditions. According to Thomson Reuters, year-to-date worldwide M&A announced volumes are down 22% compared to the same period in the prior year[1]. However, we are still in a very constructive environment for M&A by historical standards. We expect corporate boards and management teams to continue to use M&A as a tool for growth.

Despite a sustained low interest rate environment, restructuring activity remained strong during the quarter driven by continued distress in the energy and commodity sectors. While significant restructuring opportunities remain in the energy sector, we expect there will be restructuring activity in other industries as well.

Short-term volatility in the market has the potential to pause investment, which could have an impact on our strategic advisory and fund placement businesses. This short-term volatility however, does not impact the long-term allocation decisions of investors or their commitment to alternative asset classes. Overall, alternative assets benefit from a combination of volatile returns in public equities and low yields on traditional fixed income. As a leading alternative asset fundraising platform, Park Hill Group is well-positioned to benefit from this trend.

On June 23, 2016, the United Kingdom (“U.K.”) voted to leave the European Union, commonly referred to as “Brexit.” The full impact of Brexit remains uncertain, and it is likely to take a significant period of time before the future terms of the U.K.’s relationship with the European Union are determined. Circumstances relating to Brexit have the potential to impact particular client transactions as well as the Company’s decisions around our organization and/or operations.

Key Financial Measures

Revenues

Substantially all of our revenues are derived from Advisory Fees and Placement Fees. This revenue is primarily a function of the number of active engagements we have, the size of each of those engagements and the fees we charge for our services.

Advisory Fees – Our strategic advisory services include a broad range of financial advisory and transaction execution services relating to acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses, corporate finance advisory and distressed sales. Our restructuring and special situations services include providing advice to corporations and creditors in recapitalizations and restructurings around the world, with particular expertise in large, complex and high-profile deals. In conjunction with providing such restructuring advice, we may also assist with raising various forms of financing, including debt and equity. Our secondary advisory services provided by Park Hill Group include providing solutions to investing clients seeking portfolio liquidity, unfunded commitment relief and investments in secondary markets. Advisory Fees typically consist of advisory retainer and transaction-based fee arrangements. The amount and timing of the fees paid vary by the type of engagement. The majority of our Advisory Fees are dependent on the successful completion of a transaction.

A transaction can fail to be completed for many reasons, including failure of parties to agree upon final terms with the counterparty, to secure necessary board or shareholder approvals, to secure necessary financing or to achieve necessary regulatory approvals. In the case of bankruptcy engagements, fees are subject to approval of the court.

Placement Fees – Our fund placement services are provided within Park Hill Group and primarily serve private equity, real estate and hedge funds. Our team advises on all aspects of the fundraising process including competitive positioning and market assessment, marketing materials and related documentation and partnership terms and conditions most prevalent in the current environment. We also provide private placement fundraising services to our corporate clients and earn placement fees based on successful completion of the transaction.

[1] Source: Thomson Reuters. Aggregate mergers and acquisitions values extracted from the official Thomson Reuters Mergers & Acquisitions Review for First Nine Months 2016, based on figures extracted from Thomson Reuters databases as of September 30, 2016.

Fund placement fees earned for services provided to alternative asset managers are typically recognized as earned upon acceptance by a fund of capital or capital commitments, in accordance with terms set forth in individual agreements. For commitment based fees, revenue is recognized as commitments are accepted (referred to as a "closing"). Fees for such closed-end fund arrangements are generally paid in quarterly installments over three or four years and interest is charged to the outstanding balance at an agreed upon rate (typically the London Interbank Offered Rate ("LIBOR") plus a market-based margin). For funds with multiple closings, each closing is treated as a separate performance obligation. As a result, we recognize revenue at each closing as our performance obligations are fulfilled. For open-end structures, placement fees are typically calculated as a percentage of a placed investor's month-end net asset value. Typically, we earn fees for such open-end fund structures over a 48 month period. For these arrangements, revenue is recognized monthly as the amounts become fixed and determinable.

We may receive non-refundable up-front fees upon execution of agreements with clients to provide placement services, which are recorded as revenues in the period over which services are provided.

Revenues from Affiliates – For periods presented prior to October 1, 2015, we reported revenues received from services provided to portfolio companies owned or controlled by Blackstone as well as funds managed by Blackstone as Revenues from Affiliates in our Condensed Consolidated and Combined Statements of Operations. There were no revenues earned from affiliates for the three and nine months ended September 30, 2016. Advisory Fees from such assignments were 0.7% and 1.9% of our Advisory Fees for the three and nine months ended September 30, 2015, respectively. Placement Fees from such assignments were 10.7% and 18.8% of our Placement Fees for the three and nine months ended September 30, 2015, respectively.

Interest Income and Other – Interest Income and Other represents interest typically earned on Cash and Cash Equivalents and outstanding placement fees receivable as well as miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars. Interest on placement fees receivable is earned from the time revenue is recognized and is calculated based upon LIBOR plus an additional percentage as mutually agreed upon with the receivable counterparty. Interest receivable is included in Accounts Receivable in the Condensed Consolidated and Combined Statements of Financial Condition.

Expenses

Compensation and Benefits – Compensation and Benefits expense includes employee and partner salaries, bonuses, benefits and employer taxes. Changes in this expense are driven by fluctuations in the number of employees, increases in wages as a result of inflation or labor market conditions, changes in rates for employer taxes and other cost increases affecting benefit plans. In addition, this expense is affected by the composition of our work force. The expense associated with our bonus and equity plans can also have a significant impact on this expense category and may vary from year to year.

We maintain compensation programs, including base salary, cash bonus awards, cash with clawback mechanisms and equity bonus awards and benefits programs and manage compensation to estimates of competitive levels based on market conditions and performance. Our level of compensation reflects our plan to maintain competitive compensation levels to retain key personnel and it reflects the impact of newly-hired senior professionals, including related grants of equity awards which are generally valued at their grant date.

Increasing the number of high-caliber, experienced senior level employees is critical to our growth efforts. In our advisory businesses, these hires generally do not begin to generate significant revenue in the year they are hired.

Our remaining expenses are the other costs typical to operating our business, which generally consist of:

- Occupancy and Related – consisting primarily of costs related to leased property including rent, maintenance, real estate taxes, utilities and other related costs. Our company headquarters are located in New York, New York, and we maintain additional offices in the U.S. and throughout the world;
- Travel and Related – consisting of costs for our partners and employees to render services where our clients are located;
- Professional Fees – consisting principally of consulting, audit and tax, recruiting and legal services;

- Communications and Information Services – consisting primarily of costs for our technology infrastructure and telecommunications costs;
- Depreciation and Amortization – depreciation and amortization on our furniture, fixtures and equipment and intangible assets; and
- Other Expenses – consisting principally of research, bad debt, regulatory fees, insurance, fees paid for access to external market data, the Caspersen-related charge and transaction-related payable to Blackstone.

Income Taxes – PJT Partners Inc. is a corporation subject to U.S. federal, state and local income taxes in jurisdictions where it does business. The Company's businesses generally operate as partnerships for U.S. federal and state purposes and as corporate entities in non-U.S. jurisdictions. In the U.S. federal and state jurisdictions, taxes related to income earned by these entities generally represent obligations of the individual members and partners. Prior to October 1, 2015, these taxes were not reflected in the Company's condensed consolidated and combined financial statements.

The operating entities have generally been subject to New York City UBT and to entity-level income taxes imposed by non-U.S. jurisdictions, as applicable. These taxes have been reflected in the Company's condensed consolidated and combined financial statements.

Prior to October 1, 2015, the Company's operations were included in the income tax returns of Blackstone's subsidiaries, except for certain entities that were classified as partnerships for U.S. tax purposes. These partnerships were subject to New York City UBT and certain other foreign, state and local taxes, as applicable.

In connection with the spin-off from Blackstone on October 1, 2015, PJT Partners Inc. became subject to U.S. corporate federal, state and local income tax on its allocable share of results of operations from the operating partnership (PJT Partners Holdings LP).

Redeemable Non-Controlling Interest

Following the spin-off on October 1, 2015, PJT Partners Inc. is a holding company and its only material asset is its controlling equity interest in PJT Partners Holdings LP, and certain cash and cash equivalents it may hold from time to time. As the sole general partner of PJT Partners Holdings LP, PJT Partners Inc. operates and controls all of the business and affairs and consolidates the financial results of PJT Partners Holdings LP and its subsidiaries. The holders of the Partnership Units have redemption rights not solely within PJT Partners' control and thus their ownership interest is considered a redeemable non-controlling interest. Redeemable Non-Controlling Interests have been presented separately from Equity in the Condensed Consolidated and Combined Statements of Financial Condition.

Condensed Consolidated and Combined Results of Operations

The following table sets forth our condensed consolidated and combined results of operations for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
	(Dollars in Thousands)					
Revenues						
Advisory Fees	$100,728	$116,205	-13 %	$241,360	$221,471	9 %
Placement Fees	18,327	27,776	-34 %	78,930	76,099	4 %
Interest Income and Other	2,291	3,341	-31 %	5,644	4,546	24 %
Total Revenues	121,346	147,322	-18 %	325,934	302,116	8 %
Expenses						
Compensation and Benefits	95,841	67,060	43 %	255,976	206,820	24 %
Occupancy and Related	6,481	10,539	-39 %	19,521	24,583	-21 %
Travel and Related	3,208	4,029	-20 %	8,755	10,388	-16 %
Professional Fees	3,983	8,744	-54 %	14,170	14,280	-1 %
Communications and Information Services	1,970	2,824	-30 %	6,670	5,991	11 %
Depreciation and Amortization	4,004	7,810	-49 %	11,930	10,845	10 %
Other Expenses	7,819	2,455	218 %	18,394	6,476	184 %
Total Expenses	123,306	103,461	19 %	335,416	279,383	20 %
Income (Loss) Before Provision for Taxes	(1,960)	43,861	N/M	(9,482)	22,733	N/M
Provision for Taxes	8,376	1,971	325 %	4,139	3,973	4 %
Net Income (Loss)	(10,336)	$41,890	N/M	(13,621)	$18,760	N/M
Net Loss Attributable to Redeemable Non-Controlling Interests	(625)			(3,842)		
Net Loss Attributable to PJT Partners Inc.	$(9,711)			$(9,779)		

N/M Not meaningful.

The Company’s results of operations for periods presented prior to October 1, 2015 reflect the historical financial results of operations of the strategic advisory services, restructuring and reorganization advisory services and Park Hill Group businesses of Blackstone. The results of operations may not necessarily reflect our results of operations had we been a stand-alone company during the periods presented or what our financial results may be in the future.

Additionally, the results of operations of PJT Capital LP are not included in the results of operations for periods presented prior to October 1, 2015 as the acquisition did not occur until October 1, 2015.

We have incurred certain costs during the transition to being a stand-alone public company. These costs have included, for example, additional accounting, tax and other professional costs pertaining to the spin-off and establishment of PJT Partners as a stand-alone public company, recruiting and relocation costs associated with hiring personnel, costs related to establishing our brand in the marketplace and costs to build out our corporate infrastructure. The results of operations for the three and nine months ended September 30, 2016 reflect these additional costs.

Revenues

The following table provides revenue statistics for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Advisory Fees				
Number of Clients	68	57	116	102
Number of Fee-Paying Clients with $1 Million or More	20	14	63	47
Number of Fee-Paying Clients Representing Greater than 10% of Advisory Fees	2	2	—	2
Percentage of Such Clients' Fees of Total Advisory Fees	21.9 %	49.5 %	N/A	29.3 %
Placement Fees				
Number of Clients	39	41	62	59
Number of Fee-Paying Clients with $1 Million or More	5	8	22	22
Number of Fee-Paying Clients Representing Greater than 10% of Placement Fees	2	4	—	—
Percentage of Such Clients' Fees of Total Placement Fees	35.9 %	51.3 %	N/A	N/A

Total Revenues were $121.3 million for the three months ended September 30, 2016, a decrease of $26.0 million compared with Total Revenues for the three months ended September 30, 2015 of $147.3 million. The decrease in Total Revenues was primarily attributable to decreases of $15.5 million in Advisory Fees and $9.4 million in Placement Fees. The decrease in Advisory Fees was primarily driven by an overall decrease in the size of transactions that closed during the three months ended September 30, 2016. A decrease in strategic advisory activity was partially offset by an increase in restructuring and special situations activity. The decline in Placement Fees was primarily due to a decrease in the number and size of fund placement transactions that closed during the quarter.

Total Revenues were $325.9 million for the nine months ended September 30, 2016, an increase of $23.8 million compared with Total Revenues for the nine months ended September 30, 2015 of $302.1 million. The increase in Total Revenues was primarily attributable to increases of $19.9 million in Advisory Fees and $2.8 million in Placement Fees. The increase in Advisory Fees was primarily driven by an overall increase in the number and size of advisory transactions that closed during the nine months ended September 30, 2016. An increase in restructuring and special situations activity was partially offset by a decrease in strategic advisory activity. The increase in Placement

Fees was primarily due to an increase in the number of fund placement transactions that closed during the nine months ended September 30, 2016.

Expenses

Expenses were $123.3 million for the three months ended September 30, 2016, an increase of $19.8 million compared with $103.5 million for the three months ended September 30, 2015. The increase in expenses was primarily attributable to increases in Compensation and Benefits and Other Expenses of $28.8 million and $5.4 million, respectively. These increases were partially offset by decreases in Professional Fees, Occupancy and Related and Depreciation and Amortization of $4.8 million, $4.1 million and $3.8 million, respectively. The increase in Compensation and Benefits was primarily due to an increase in equity compensation expense on transaction-related awards granted in connection the spin-off as well as an increase in headcount. The increase in Other Expenses was driven primarily by an increase in bad debt expense as well as the amount the Company has agreed to pay Blackstone related to the net realized cash benefit from certain compensation related tax deductions. The decrease in Professional Fees was primarily related to increased legal and other professional services expenses in the third quarter of 2015 incurred in connection with the spin-off. The decrease in Occupancy and Related was primarily related to the reflection of rent expense in the three months ended September 30, 2015 for both current and previous office locations during the period of transition. The decrease in Depreciation and Amortization was primarily related to the third quarter of 2015 reflecting a non-cash charge associated with the impairment of certain intangible assets.

Expenses were $335.4 million for the nine months ended September 30, 2016, an increase of $56.0 million compared with $279.4 million for the nine months ended September 30, 2015. The increase in expenses was primarily attributable to increases in Compensation and Benefits and Other Expenses of $49.2 million and $11.9 million, respectively. These increases were partially offset by a decrease in Occupancy and Related of $5.1 million. The increase in Compensation and Benefits was primarily due to an increase in revenues between the nine months ended September 30, 2015 and 2016, an increase in equity compensation expense on transaction-related awards granted in connection with the spin-off and an increase in headcount. The increase in Other Expenses was primarily related to the accrual associated with the Caspersen matter that was recorded in the first quarter of 2016 (including an offset for insurance recovery deemed probable of receipt), the amount the Company has agreed to pay Blackstone related to the net realized cash benefit from certain compensation related tax deductions, bad debt expense and increased costs associated with the Company’s operation as a stand-alone public company since October 1, 2015. The decrease in Occupancy and Related was primarily related to the reflection of rent expense in the nine months ended September 30, 2015 for both current and previous office locations during the period of transition.

Provision for Taxes

The Company’s Provision for Taxes for the three months ended September 30, 2016 was $8.4 million, which represents an annualized effective tax rate of -427.3% on a pretax loss of $2.0 million. The Company’s Provision for Taxes for the three months ended September 30, 2015 was $2.0 million, which represents an annualized effective tax rate of 4.5% on pretax income of $43.9 million.

The Company’s Provision for Taxes for the nine months ended September 30, 2016 was $4.1 million, which represents an annualized effective tax rate of -43.7% on a pretax loss of $9.5 million. The Company’s Provision for Taxes for the nine months ended September 30, 2015 was $4.0 million, which represents an annualized effective tax rate of 17.5% on pretax income of $22.7 million.

The Company’s effective tax rate for the three months ended September 30, 2016 was largely due to the use of the actual year-to-date rate as of September 30, 2016 in determining tax expense in comparison to using an annualized effective tax rate in determining tax expense for the six months ended June 30, 2016. The Company’s effective tax rate for the three and nine months ended September 30, 2016 was also attributable to corporate entities subject to U.S. federal, state, local and foreign income taxes; to non-corporate entities that are subject to New York City UBT and to certain compensation and other pretax charges that are not deductible for tax purposes. Despite a GAAP Net Loss for both the three and nine months ended September 30, 2016, the Company had taxable income as a result of the addback of permanent differences, primarily related to the amortization of equity compensation.

The Company’s effective tax rate for the three and nine months ended September 30, 2015 was largely attributable to foreign income tax, New York City UBT and to certain compensation charges that are not deductible for tax purposes.

Redeemable Non-Controlling Interests

Net Income (Loss) Attributable to Redeemable Non-Controlling Interests is derived from the Income (Loss) Before Provision for Taxes and the percentage allocation of the income (loss) between the holders of Partnership Units and holders of Class A common stock of PJT Partners Inc. after considering any contractual arrangements that govern the allocation of income (loss). Prior to the spin-off on October 1, 2015, redeemable non-controlling interests had not been presented in the financial statements.

Liquidity and Capital Resources

General

We regularly monitor our liquidity position, including cash and cash equivalents, working capital assets and liabilities, any commitments and other liquidity requirements.

Our assets have historically comprised cash and receivables earned from strategic advisory and placement fees. Our liabilities primarily include accrued compensation and benefits, accounts payable and accrued expenses and taxes payable. Prior to the spin-off on October 1, 2015, intercompany amounts due to Blackstone were typically settled monthly, which included settlements of accruals for forecast year-end incentive compensation. Blackstone retained and paid the accrual for year-end incentive compensation in respect of amounts recorded at September 30, 2015. Incentive compensation recorded during the fourth quarter of 2015 and going forward is recorded and paid by us. We expect to pay a significant amount of incentive compensation late each year or during the first two months of each calendar year with respect to the prior year's results. A significant portion of annual compensation is awarded with equity-based compensation and thus requires less cash. We expect levels of cash to decline at year-end or during the first quarter of each year after incentive compensation is paid to our employees. We then expect cash to gradually increase over the remainder of the year.

Additionally, in connection with the spin-off, we entered into a credit facility with First Republic Bank to provide a $60.0 million revolving credit facility, with the ability to increase the credit facility up to $80.0 million during the period beginning December 1 each year through March 1 the following year, so long as no event of default has occurred and is continuing or would be caused by exercising such option. The revolving credit facility is further described in Note 11. "Commitments and Contingencies—Commitments, Line of Credit" in the "Notes to Condensed Consolidated and Combined Financial Statements" in "Part I. Item 1. Financial Statements" of this filing. As of September 30, 2016 and December 31, 2015, there were no borrowings under the revolving credit facility and we were in compliance with all debt covenants.

On October 10, 2016, PJT Partners Holdings LP entered into a Renewal Agreement (the "Renewal Agreement") and related documents with First Republic Bank, amending the terms of the Company's revolving credit facility under the Loan Agreement. The Renewal Agreement provides for a one-year extension of the maturity of the revolving credit facility to October 2, 2018.

We evaluate our cash needs on a regular basis in light of current market conditions. As of September 30, 2016 and December 31, 2015, we had cash and cash equivalents of $156.9 million and $82.3 million, respectively.

Our liquidity is highly dependent upon cash receipts from clients, which are generally dependent upon the successful completion of transactions as well as the timing of receivable collections. As of September 30, 2016 and December 31, 2015, total accounts receivable were $182.1 million and $169.6 million, respectively, net of allowance for doubtful accounts of $3.3 million and $0.9 million, respectively. As of September 30, 2016 and December 31, 2015, $61.1 million and $62.6 million, respectively, of receivables attributable to our private fund advisory and placement business were expected to be collected at or more than one year from each date.

Sources and Uses of Liquidity

Our primary cash needs are for working capital, paying operating expenses, including cash compensation to our employees, funding the cash redemption of Partnership Units, paying income taxes, making distributions to our shareholders in accordance with our dividend policy, capital expenditures, commitments and strategic investments. We expect to fund these liquidity requirements through cash flows from operations and borrowings under our revolving credit facility. Our ability to fund these needs through cash flows from operations will depend, in part, on our ability to generate or raise cash in the future. This depends on our future financial results, which are subject to general economic, financial, competitive, legislative and regulatory factors. Furthermore, our ability to forecast future cash flows is more limited because we do not have a long-established operating history as a stand-alone company. If our cash flows from operations are less than we expect, we may need to incur additional debt, issue additional equity or borrow from our revolving credit facility. Although we believe that the arrangements we have in place will permit us to finance our operations on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including: (a) our credit ratings or absence of a credit rating, (b) the liquidity of the overall capital markets, and (c) the current state of the economy. We cannot provide any assurance that such financing will be available to us on acceptable terms or that such financing will be available at all. We believe that our future cash from operations and availability under our revolving credit facility, together with our access to funds on hand, will provide adequate resources to fund our short-term and long-term liquidity and capital needs.

Subject to the terms and conditions of the exchange agreement between us and certain of the holders of Partnership Units, Partnership Units are exchangeable at the option of the holder for cash, or, at our election, for shares of our Class A common stock on a one-for-one basis. Depending on our liquidity and capital resources, market conditions, the timing and concentration of exchange requests and other considerations, we may choose to fund cash-settled exchanges of Partnership Units with available cash, borrowings or new issuances of Class A common stock or to settle exchanges by issuing Class A common stock to the exchanging Partnership Unitholder. Issuing significant numbers of shares of our Class A common stock upon exchange of Partnership Units could adversely affect the tax consequences to Blackstone of the distribution. Accordingly, while we will retain the right under the Exchange Agreement to elect to settle exchanges in cash or Class A common stock in our sole discretion, we intend to limit such issuances of Class A common stock in settlement of exchanges of Partnership Units to the extent necessary to preserve the intended tax-free nature of the spin-off and to comply with our obligations under the Tax Matters Agreement.

Certain Partnership Unitholders have provided notice to exchange 594,072 Partnership Units. The Company settled the exchange of these Partnership Units on November 8, 2016 for an aggregate payment of $16.1 million with cash from the Company's working capital. The price per Partnership Unit paid by the Company was $27.02, which is equal to the volume-weighted average price of a share of the Company's Class A common stock on November 3, 2016.

Regulatory Capital

We actively monitor our regulatory capital base. We are subject to regulatory requirements in the U.S. and certain international jurisdictions to ensure general financial soundness and liquidity. This requires, among other things, that we comply with certain minimum capital requirements, recordkeeping, reporting procedures, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to and from affiliates. See Note 13. "Regulated Entities" in the "Notes to Condensed Consolidated and Combined Financial Statements" in "Part I. Item 1. Financial Statements" of this filing for further information. The licenses under which we operate are meant to be appropriate to conduct our strategic advisory, restructuring and special situations and private fund advisory and placement services. We believe that we provide each of these entities with sufficient capital and liquidity, consistent with their business and regulatory requirements.

Our activities may also be subject to regulation, including regulatory capital requirements, by various other foreign jurisdictions and self-regulatory organizations.

We do not anticipate that compliance with any and all such requirements will materially adversely impact the availability of funds for domestic and parent-level purposes.

Contractual Obligations

For a discussion of our contractual obligations, refer to "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations, Commitments and Contingencies" in the

Company's Annual Report on Form 10 K for the year ended December 31, 2015. There have not been any material changes to the Company's contractual obligations since December 31, 2015.

Commitments and Contingencies

As also discussed in Note 11. "Commitments and Contingencies—Litigation" in the "Notes to Condensed Consolidated and Combined Financial Statements" in "Part I. Item 1. Financial Statements" of this filing, the

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Company previously recorded an expense of $8.9 million related to the Caspersen matter, which represents the amount that was considered to be probable and reasonably estimable. This charge as well as a related insurance reimbursement of $5.6 million deemed probable of receipt were recorded during the three months ended March 31, 2016. The Company paid $8.1 million related to the charge during the three months ended September 30, 2016 and paid an additional $0.5 million during October 2016. Additionally, the Company received the $5.6 million insurance reimbursement in October 2016.

With respect to potential additional claims related to funds fraudulently obtained by Mr. Caspersen, we believe that the total potential amount of any such claims to be less than $30 million, any such claims would be without merit and we would vigorously defend any such actions.

For other matters, including the litigation discussed under the caption “Legal Proceedings” elsewhere in this report, we are not currently able to estimate the possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support such an assessment, including quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by courts on motions or appeals, analysis by experts or the status of any settlement negotiations. However, the disposition of these contingencies could be material to our financial results in the period in which it occurs.

See Notes 7, 9, 11 and 12 in the “Notes to Condensed Consolidated and Combined Financial Statements” in “Part I. Item 1. Financial Statements” of this filing for further information in connection with income taxes, equity compensation plans, commitments and employee benefit plans, respectively.

Tax Receivable Agreement

For a discussion of the Tax Receivable Agreement, refer to the Company’s Annual Report on Form 10 K for the year ended December 31, 2015.

The Company settled the exchange of certain Partnership Units on November 8, 2016 for an aggregate payment of $16.1 million with cash from the Company’s working capital. The price per Partnership Unit paid by the Company was $27.02, which is equal to the volume-weighted average price of a share of the Company’s Class A common stock on November 3, 2016. The exchanges are expected to give rise to a tax benefit to PJT Partners Inc. and to a corresponding payment obligation under the Tax Receivable Agreement, which will be reflected as a liability in the fourth quarter of 2016. The liability, which could be material, consists of the aggregate payments currently expected to be made under the Tax Receivable Agreement. The actual payment amount depends on the tax savings deemed to be realized by PJT Partners Inc. and is computed annually after its tax returns have been filed.

Indemnifications

We enter into contracts, including contracts with Blackstone relating to the spin-off, that contain a variety of indemnifications. Our maximum exposure under these arrangements is not known. However, we have not had prior claims or losses pursuant to these contracts and expect the risk of loss to be remote.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 2. "Summary of Significant Accounting Policies" in the "Notes to Consolidated and Combined Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the year ended December 31, 2015. A discussion of critical accounting policies is included in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2015. There were no significant changes in our significant accounting policies or critical accounting policies during the nine months ended September 30, 2016.

Off-Balance Sheet Arrangements

The Company is not involved with any off-balance sheet arrangements that are not elsewhere reflected in our condensed consolidated and combined financial statements.

Recent Accounting Developments

Information regarding recent accounting developments and their impact on the Company can be found in Note 2. "Summary of Significant Accounting Policies" in the "Notes to Condensed Consolidated and Combined Financial Statements" in "Part I. Item 1. Financial Statements" of this filing.

Emerging Growth Company Implications

Information regarding our emerging growth company status and implications can be found in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk can be found in "Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2015. Our exposures to market risk have not changed materially since December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as such term is defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
From time to time, the Company and its affiliates may be subject to legal proceedings and claims in the ordinary course of business. In addition, government agencies and self-regulatory organizations in countries in which we conduct business, conduct periodic examinations and initiate administrative proceedings regarding the Company's and its affiliates' business, including, among other matters, accounting and operational matters, that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, investment advisor, or its directors, officers or employees. It is our policy to cooperate fully with such governmental requests, examinations and administrative proceedings. In view of the inherent difficulty of determining whether any loss in connection with any such matters is probable and whether the amount of such loss can be reasonably estimated, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, we cannot estimate the amount of such loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, we believe, based on current knowledge and after consultation with counsel, that we are not currently party to any material pending proceedings, individually or in the aggregate, the resolution of which would have a material effect on the Company.

On April 15, 2016, Plaintiff Gregory G. Barrett filed in the Southern District of New York a putative class action for violation of the federal securities laws against defendants PJT Partners Inc. and Andrew W. W. Caspersen in an action styled Gregory G. Barrett v. PJT Partners Inc. and Andrew W. W. Caspersen, No. 1:16-cv-02841-VEC (S.D.N.Y.). Generally, the complaint alleges that PJT Partners made misstatements about its business, operational and compliance policies and its compliance and fraud-prevention controls. These alleged misstatements allegedly caused members of the putative class, investors who purchased PJT Partners common stock during the class period, November 12, 2015 to March 28, 2016, to pay an inflated price for PJT Partners common stock. The complaint alleges claims under section 10(b) and Rule 10b-5 of the Exchange Act against PJT Partners and Mr. Caspersen, and under 20(a) of the Exchange Act against Mr. Caspersen. On June 14, 2016, plaintiff Gregory G. Barrett filed a motion for appointment as lead plaintiff and for approval of Pomerantz LLP as lead counsel. On August 3, 2016, the motion was granted. On September 23, 2016, lead plaintiff filed an amended class action complaint. The amended complaint alleges claims under section 10(b) and Rule 10b-5 of the Exchange Act against PJT Partners, Paul J. Taubman, Helen T. Meates and Mr. Caspersen and under Section 20(a) of the Exchange Act against Mr. Taubman and Ms. Meates. The Company, Mr. Taubman and Ms. Meates intend to move to dismiss the amended complaint. We believe that this shareholder action is without merit and will defend it vigorously.

ITEM 1A. RISK FACTORS
There were no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

The risks described in our Annual Report on Form 10-K for the year ended December 31, 2015 and in our subsequently filed Quarterly Reports on Form 10 Q are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
In connection with the issuance on August 1, 2016 of LTIP Units in PJT Partners Holdings LP to an employee of the Company, PJT Partners Inc. issued one corresponding share of its Class B common stock, par value $0.01 per share, to this employee on August 1, 2016. Shares of Class B common stock have no economic rights but entitle the holder, without regard to the number of shares of Class B common stock held, to a number of votes that is equal to the aggregate number of vested and unvested Partnership Units and LTIP Units in PJT Partners Holdings LP held by such holder on all matters presented to stockholders of PJT Partners Inc. other than director elections and removals. With

respect to the election and removal of directors of PJT Partners Inc., shares of Class B common stock will initially entitle holders to only one vote per share. However, the voting power of Class B common stock with respect to the election and removal of directors of PJT Partners Inc. may be increased to up to the number of votes to which a holder is then entitled on all other matters presented to stockholders. The issuance of shares of Class B common stock was not registered under the Securities Act of 1933 because such shares were not issued in a transaction involving the offer or sale of securities.

Dividend Policy

The Company declared a dividend of $0.05 per share of Class A common stock in the third quarter of 2016 and plans to regularly pay quarterly dividends.

Refer to "Part II. Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for further disclosure of the Company's dividend policy.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

ITEM 5. OTHER INFORMATION
Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1	Separation and Distribution Agreement by and among The Blackstone Group L.P., Blackstone Holdings I L.P., New Advisory GP L.L.C., PJT Partners Inc. and PJT Partners Holdings LP, dated as of October 1, 2015 (incorporated herein by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K (File No. 001-36869) filed with the Securities and Exchange Commission on October 5, 2015).
3.1	Amended and Restated Certificate of Incorporation of PJT Partners Inc. (incorporated herein by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K (File No. 001-36869) filed with the Securities and Exchange Commission on October 5, 2015).
3.1.1	Certificate of Designation of Series A Junior Participating Preferred Stock of PJT Partners Inc. (incorporated herein by reference to Exhibit 3.1.1 to the Registrant’s Current Report on Form 8-K (File No. 001-36869) filed with the Securities and Exchange Commission on October 5, 2015).
3.2	Amended and Restated By-Laws of PJT Partners Inc. (incorporated herein by reference to Exhibit 3.2 to the Registrant’s Current Report on Form 8-K (File No. 001-36869) filed with the Securities and Exchange Commission on October 5, 2015).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 10, 2016

PJT Partners Inc.

By: /s/ Paul J. Taubman
Name: Paul J. Taubman
Title: Chief Executive Officer

By: /s/ Helen T. Meates
Name: Helen T. Meates
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

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