

CtW Investment Group

May 16, 2011

Linda S. Wolf
Chairperson, Compensation, Nominating and Governance Committee
Wal-Mart Stores, Inc.
702 Southwest 8th Street
Bentonville, Arkansas 72716-0215

Dear Ms. Wolf:

On behalf of the CtW Investment Group, I urge you to take immediate steps to address looming governance concerns regarding Wal-Mart Stores, Inc. (“Walmart”) executive compensation, board independence, and an increasing ownership stake by the Walton family that threatens to cross the 50% threshold by the second quarter of the current fiscal year.

In the wake of a May 8th *New York Times* article questioning Walmart’s recent compensation practice changes, and with Walmart’s annual meeting less than a month away, we believe it is incumbent upon the board to immediately initiate and disclose a process to institute compensation reforms reversing recent changes to Walmart’s executive compensation, including those outlined in this year’s proxy statement. Additionally, we believe the board should take immediate steps to name new, independent directors to oversee efforts to address key strategic planning questions and persistent performance concerns, given that two key directors on the board’s Strategic Planning and Finance Committee – M. Michele Burns and current presiding director, James W. Breyer – have significant related-party transactions that call their independence into question.

Finally, we further call on the board to disclose its plan with respect to the Walton family’s increasing ownership of Walmart through Walton Enterprises LLC, which could soon result in Walmart filing for “controlled company” status under the New York Stock Exchange (NYSE) listing standards. Alternatively, we believe the board needs to assure shareholders that it will not seek the “controlled company” exemption from the NYSE listing standards requirements for board independence, and will adopt a supermajority independence standard into the Company’s by-laws and corporate governance guidelines.

We call upon the board to report to shareholders in advance of the June 3rd annual meeting the specific actions and remedies it will take to address these concerns. Specifically, to address and commit to remedying the following issues:

- The Compensation Committee’s decision to remove same-store sales¹ as a performance pay metric appears to relieve Mr. Duke and his team from hitting targets on a metric that management and the board have repeatedly emphasized is intimately tied to shareholder returns, calling into question whether the revised

¹ Walmart and other retailers may refer to same-store sales, comparable store sales or ID sales without necessarily using the same definition of those terms. Walmart and other companies also change the definition of those metrics from time to time. For the purposes of this letter we use the terms comparable store sales and same-store sales interchangeably.

compensation practices are appropriately incentivizing long-term shareholder value creation;

- The lowering of revenue growth and Return on Investment (“ROI”) performance targets for executive pay, following several years in which those targets were not met, which raises questions as to the board’s commitment to link pay with performance;
- The questionable role of compensation consultant Mercer LLC (“Mercer”) in the restructuring of executive compensation at Walmart: at the time of Mercer’s engagement, the Compensation Committee had only recently ceased to be chaired by Michele Burns, Mercer’s Chairman and CEO, which calls into question the appropriateness of the choice of Mercer to perform the compensation analysis and highlights on-going concerns as to Ms. Burns’ current independence status;
- Walmart’s recent acquisition of Kosmix calls into question the independence of presiding independent director James W. Breyer under the NYSE listing standards because Mr. Breyer is a partner of Accel Partners (“Accel”), a venture capital firm that partly owned Kosmix; and
- The recent growth in relative ownership by Walton Enterprises LLC appears on track to push the insider ownership of Walmart common stock above 50% by the end of the second quarter of this fiscal year, raising concerns about whether the board will seek “controlled company” exemptions from board independence requirements under the NYSE listing standards.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a coalition of unions representing five million members, to enhance long-term shareholder returns through active ownership. Members of CtW affiliates participate in Taft-Hartley plans with over \$200 billion in assets. These funds are substantial long-term Walmart shareholders, collectively holding an estimated 9.2 million shares.

Overview: serious governance concerns around compensation practices, director independence and majority control must be addressed by the Walmart board

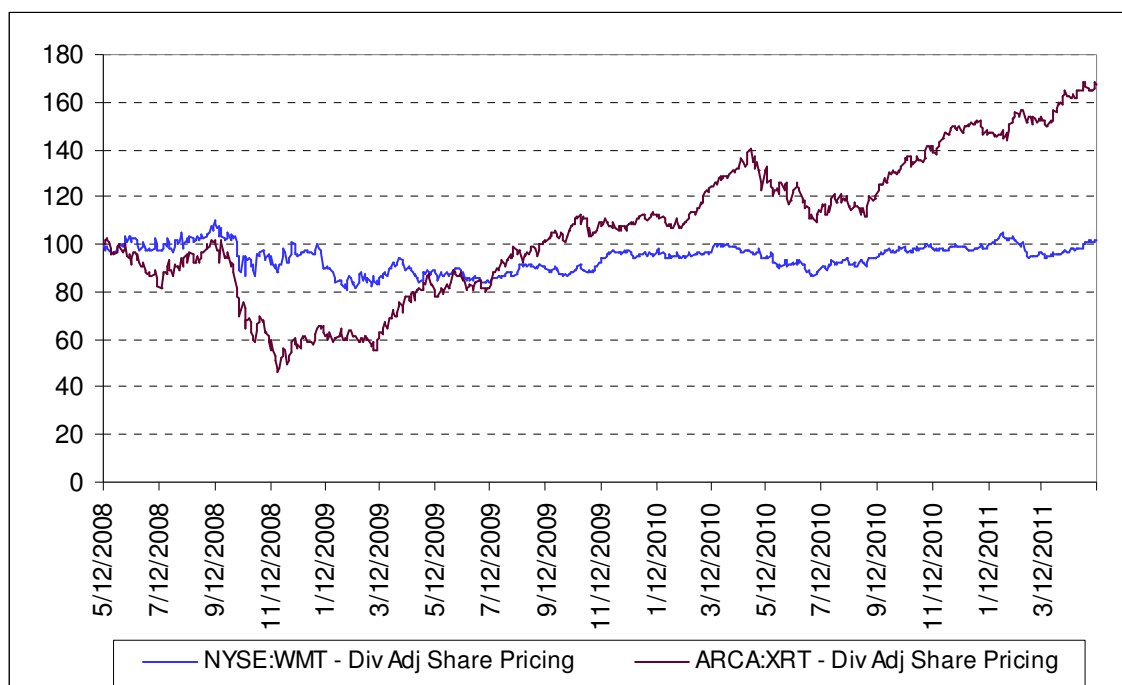
We believe the concerns identified above are at the heart of Walmart’s poor operating performance and lagging shareholder returns. According to Walmart’s own calculations ROI fell from 23% to 19% between 2008 and 2011, while revenue growth fell from approximately 8% to 2.4% during the same period.² (As we discuss below, this deteriorating performance still earned executives significant bonus payouts.)

Meanwhile, Walmart’s market returns have dramatically underperformed the S&P Retail Index as well as the equity markets generally, and the Company’s stock is currently trading at roughly half the PE ratio of Costco (13.2 vs. 26).³ As the chart below indicates, Walmart’s dividend adjusted returns were barely 2% over the last three year period (as of May 11, 2011), while the broad retail index was up over 67% during the same period.⁴

² Walmart Proxy Statements 2008, 2009, 2010 and 2011.

³ Capital IQ, as of May 11, 2011.

⁴ Ibid.



At the heart of Walmart’s problems are the continued negative U.S. same-store sales results, repeatedly cited as the driver of the Company’s poor stock performance. For months CEO Mike Duke had promised to return this indicator to positive territory,⁵ but so far has failed. Yet it was at this juncture that this key metric was removed from executive compensation calculations.

Given that Walmart itself has repeatedly emphasized the importance of same-store sales – even describing it as a “key driver of shareholder returns” – shareholders are thus rightly concerned that executive compensation practices will be less about incentivizing performance and more about rewarding bonuses to executives despite lackluster performance.

We are also concerned that the board’s Strategic Planning and Finance Committee (“Strategic Planning Committee”) – which is charged with charting the strategic direction the Company will initiate to address lagging performance on key metrics like same-store sales – may lack appropriate independence to effectively oversee management’s development and implementation of a long-term growth plan. In particular, we are concerned that despite being listed as independent directors on Walmart’s proxy statement, Strategic Planning Committee members James W. Breyer and M. Michele Burns – each of whom are involved in significant related-party transactions with Walmart through their ties to Accel and Mercer, respectively – fail to satisfy the independence standards promulgated by the NYSE or leading proxy advisory services like Institutional Shareholder Services (ISS).

⁵ See for example Parija Kavilanz, “Wal-Mart Lost Shoppers During the Holidays,” *CNN Money*, February 22, 2011.

Compensation practices are cause for shareholder concern

Like many institutional investors, the CtW Investment Group believes that setting executive compensation metrics is one of the most telling and transparent functions of the board. At Walmart, too often the Compensation Discussion and Analysis section in the proxy statement seems designed to obfuscate rather than illuminate compensation decisions.⁶ The ultimate effect creates a veneer of “pay for performance” for compensation that actually seems to be insulated from performance. Recently, several concerns have moved to the forefront:

Removal of comparable store sales as a performance metric amounts to “a failure to admit failure”

This critical change in compensation, beginning fiscal 2011, was at the center of Gretchen Morgenson’s May 8 article, “Moving the Goalposts on Pay” in *The New York Times*, where she noted, “Shifting the goal posts meant more money for Mr. Duke in the latest fiscal year than he would have received under the old arrangement.” In the same article, Burt Flickinger III, managing director at the Strategic Resource Group, a retailing consulting firm, characterized the compensation committee’s decision to remove same-store sales from its pay-for-performance measures as “a failure to admit failure.”

The significance of comparable same-store sales as an indication of performance cannot be overstated, and in fact has been noted as such by both President and CEO Michael Duke and by the Compensation Committee. Mr. Duke wrote in his annual letter to shareholders that returning comparable store sales to positive territory was his “top priority,” and repeated this statement at the Barclay’s Retail Conference in New York on April 26th. The Compensation Committee’s removal of the metric that the CEO himself has acknowledged to be the most important gauge of his management team’s success raises very serious concerns for shareholders that the board may be moving *away* from compensation practices that properly incentivize performance.

Moreover, shareholders are concerned that the change in metrics – to total sales growth – could lead executives to make capital expenditures that may provide short term boost but could damage long-term value. In fact our analysis of company filings indicates that recent capital expenditures have resulted in significant customer cannibalization, raising serious doubts about the advisability of these investments.⁷ As shareholders we are justifiably skeptical of compensation tied too closely to measures that can be influenced through acquisition or expansion.

⁶ For example, the company states in its proxy statement that, “There were no significant changes to the basic TDC structure for NEOs in fiscal 2011,” when in fact the elimination of same-store sales is quite significant.

⁷ See Walmart 10-K, filed March 30, 2011, pg. 5: “As we continue to add new stores in the United States, we do so with an understanding that additional stores may take sales away from existing units. We estimate the negative impact on comparable store sales as a result of opening new stores was approximately 0.8% in fiscal 2011, 0.6% in fiscal 2010 and 1.1% in fiscal 2009.” By our estimate these numbers represent a growing rate of customer cannibalization per dollar invested.

Lowered targets over time suggest a failure to hold executives to performance goals

In addition, for several years, Walmart has lowered the criteria required for successive year bonuses. Specifically, revenue growth targets that had not been met during the 2006-2008 period were lowered in each of the following three years in such a way that the Company's declining revenue growth was able to "achieve" performance pay. Moreover, ROI targets were also lowered for the 2009, 2010 and 2011 fiscal years so that declining ROI still resulted in performance payouts. These annual changes to the performance targets would not have been permitted under the Company's previous compensation plan, whereby targets were set at the beginning of a three-year period. We note with concern that the significant changes to the compensation plan – which were adopted in 2008 and permitted the lowering of the performance thresholds and the removal of comparable stores sales as a metric in the middle of the performance period – appear to have been the result of a process that was compromised by the involvement of an outside firm (Mercer) with significant conflicts of interest (see below).

Concerns with compensation practices are heightened by director independence questions

The disconnect between pay and key performance indicators raises fundamental concerns about the ability of the board to provide appropriate strategic direction for the Company, and these concerns are heightened given the apparent lack of independence on the board committee charged with overseeing Walmart's strategic planning process. The board's Strategic Planning Committee has the responsibility to "[a]nalyze and recommend basic financial goals to be achieved by the Company," and,

With respect to its strategic planning functions, the Committee has the following authority and responsibilities:

1. *Provide input from the Board to management in the development of the Company's strategic plan;*
2. *Serve as a resource in assisting management in the development of the Company's strategic plan;*
3. *Act in an advisory capacity in assessing the strategies and action plans designed to meet the Company's strategic objectives; and*
4. *Serve as representatives of the Board in evaluating the Company's strategic planning process.*⁸

Given this mandate, which clearly requires an ability to objectively oversee the strategic plans presented by management, we believe the independence of the Strategic Planning Committee is of paramount importance.

Yet two of the five directors on this committee, M. Michele Burns and James W. Breyer, do not appear to meet standard tests for director independence, although they are listed as

⁸ Walmart Investor Relations Corporate Governance website, "Committee Information," available at: <http://investors.walmartstores.com/phoenix.zhtml?c=112761&p=irol-govhome>.

independent on the Company's proxy statement. For each independent director, the NYSE requires that the board must "affirmatively determine[] that the director has no material relationship with the listed company[.]"⁹ Specifically, we are concerned that the apparent related-party transaction involving Mr. Breyer, who is currently the board's presiding independent director, would fail to meet NYSE independence requirements because Walmart objectively formed a material relationship with Mr. Breyer by likely paying Mr. Breyer's company in excess of \$1 million or 2% of such company's revenues.¹⁰ We are further concerned that Ms. Burns' role as CEO of Mercer, which received approximately \$2.8 million from Walmart for "consulting services" in 2011, calls into question her independence under standards promoted by leading governance experts such as ISS, and the Council of Institutional Investors ("CII"), and may call into question the objectivity of the compensation changes recommended by Mercer and ultimately adopted by the Compensation Committee, which Ms. Burns chaired until just prior to Mercer's engagement.

Walmart's acquisition of Kosmix calls into question the independence of presiding director James W. Breyer

On April 18, 2011, Walmart reported that it agreed to acquire Kosmix, a privately held social media technology firm, which will form the basis of a new Walmart operation called @Walmartlabs.¹¹ Walmart failed to disclose in this press release or any other document that its acquisition involved a related-party: Mr. Breyer is a partner of Accel, which was a primary investor in Kosmix.¹² Further, Walmart's investor website describes him as "the Managing Partner" of Accel, indicating that Mr. Breyer is an executive and likely a significant equity holder of Accel.¹³ On May 3, 2011, the founder of Kosmix reported that Walmart completed the acquisition.¹⁴ Presumably, Walmart directly purchased Accel's ownership interest in Kosmix, resulting in gains to Accel and thus to Mr. Breyer personally. The relationship between Accel, Kosmix, and Walmart appear particularly close such that Walmart appears to have appointed Accel partner Theresia Gouw Ranzetta to sit on the board of its newly formed division @Walmartlabs.¹⁵

If our understanding of this related-party transaction is correct, it would appear to compromise Mr. Breyer's independence by creating a "material relationship" under the NYSE listing standards. Accel participated in three out of four rounds of funding that provided

⁹ See NYSE Listed Company Rules 303A.02

¹⁰ The NYSE states that the following objectively forms a material relationship: "The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues." NYSE Listed Company Rules 303A.02

¹¹ Walmart April 18, 2011 Press Release, available at: <http://walmartstores.com/pressroom/news/10552.aspx>

¹² See Kosmix company website, at: <http://www.kosmix.com/corp/about>

¹³ See Walmart investor website, at: <http://investors.walmartstores.com/phoenix.zhtml?c=112761&p=irol-govBioBoard&ID=93422>

¹⁴ See Kosmix founder's website, at: <http://anand.typepad.com/datawocky/>

¹⁵ See Theresia Gouw Ranzetta executive profile on Business Week, at: <http://investing.businessweek.com/research/stocks/private/people.asp?privcapId=27777060>

Kosmix with a total of \$55 million from 7 investors.¹⁶ Walmart reportedly paid more than \$300 million to acquire Kosmix.¹⁷ For Accel's significant stake in Kosmix, Walmart seems likely to have paid Accel an amount in excess of \$1 million or 2% of Accel's revenues.¹⁸ If so, Mr. Breyer would not meet the independence requirements under either the NYSE objective standards or those established by leading institutional investor advisor ISS.¹⁹

Walmart's failure to disclose Mr. Breyer's involvement with the transaction raises concerns that the board is not taking seriously its obligations to carefully determine director independence, review related-party transactions and to share material information with shareholders. Presumably, as the Company and board were preparing the proxy, Mr. Breyer and the entire board were familiar with the general framework of this related-party transaction. This related-party transaction raises questions about the suitability of Mr. Breyer's serving as the presiding independent director, because such a director must ensure independent oversight over other board members and the Company. Given these concerns, the board should immediately disclose further details regarding the Kosmix transaction, including the amount of Walmart's payment to Accel, the personal benefit, if any, accruing to Mr. Breyer, and the Board's process in approving this related-party transaction.

M. Michele Burns' independence and the objectivity of Mercer's compensation practice recommendations are further cause for concern

Despite significant consulting work with Walmart, Mercer was engaged to perform a highly sensitive review process that led to the restructuring of the Company's executive compensation program described above. Specifically, according to the proxy filed April 22, 2008, prior to beginning the process of establishing named executive officer (NEO) compensation for fiscal 2009, Walmart's People Division hired Mercer to assist it in conducting a review of executive compensation programs and, based in part on that review, recommended the changes in executive compensation discussed above. While the 2008 proxy statement offers significant disclosure on protocols and standards for the committee's direct engagement of Watson Wyatt, another firm hired by Walmart as a consultant on executive compensation, Walmart's disclosure concerning Mercer conspicuously omits a discussion of protocols and standards with regard to Mercer.

At the time of Mercer's engagement, the Compensation Committee had only recently ceased to be chaired by Michele Burns, Mercer's Chairman and CEO, who still remains on Walmart's board. This not only calls into question the appropriateness of the choice of Mercer to do the compensation analysis, but highlights on-going concerns as to Ms. Burns' independence.

¹⁶ See Kosmix company website, at: <http://www.kosmix.com/corp/about>; Kosmix profile on CrunchBase, at: <http://www.crunchbase.com/company/kosmix>

¹⁷ See San Jose Business Journal "Report: Wal-Mart paid \$300M plus for Kosmix," available at: <http://www.bizjournals.com/sanjose/news/2011/04/19/report-walmart-paid-300m-plus-for.html>

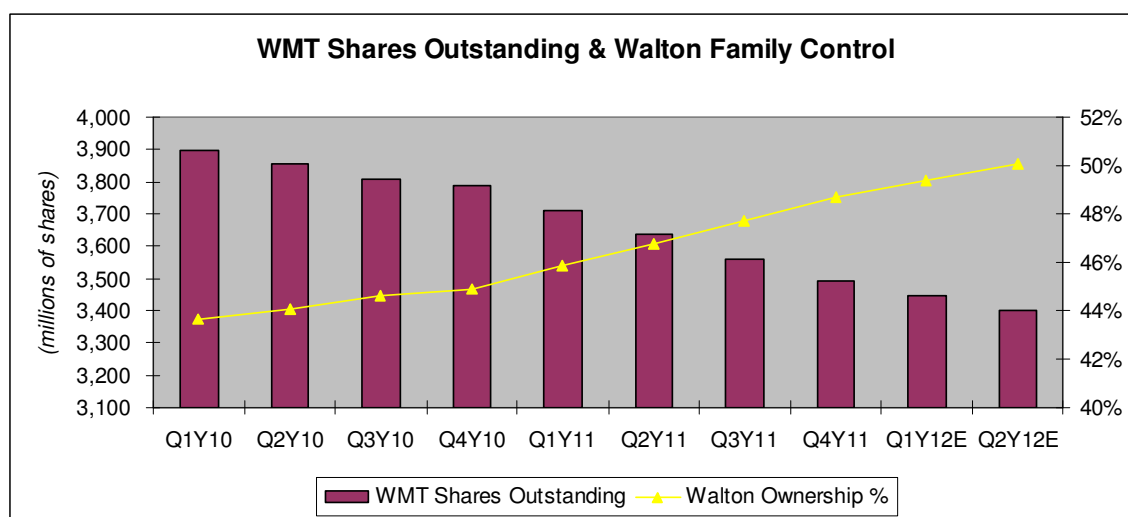
¹⁸ Accel does not appear to disclose its annual revenues.

¹⁹ See ISS 2011 Policy Guidelines, Chapter 2 "Director Independence," at: <http://www.issgovernance.com/files/ISS2011USPolicySummaryGuidelines20110127.pdf>

We believe that Michele Burns is not independent given her position as CEO of Mercer. Walmart reported that during fiscal 2011, Mercer provided to Walmart “consulting services” and Walmart paid Mercer approximately \$2.8 million for these professional services in FY 2011 (\$2 million in FY 2010, and \$3.65 million in FY 2009). The CII, in a definition of independence adopted in 2010, states that a director will not be considered independent if, in the past five years, the director has been employed by a third-party that received payments from the corporation that account for “one percent of the corporation’s consolidated gross revenues in any single fiscal year.”²⁰

Board independence concerns are compounded by the accretion of Walton family ownership

Furthermore, these concerns arise at a time when the ability of the board generally to exercise independent oversight and direction is falling into doubt. It is widely known that the Walton family owns a large percentage of Walmart shares, however we believe it has not been clearly understood by public shareholders that the family is on the verge of controlling over 50% of the common stock, allowing the Company to qualify for the “controlled company” exemption from NYSE listing standards requirements relating to board independence. According to our analysis, the crossing of the 50% threshold may occur as soon as the 2nd quarter of the current fiscal year.²¹



This trajectory toward that majority control threshold is cause of significant concern for Walmart’s non-insider shareholders. As fiduciaries for Walmart’s shareholders, we therefore

²⁰ Based on publicly available disclosure the \$2.8 million paid to Mercer does not appear to exceed the two percent threshold to automatically disqualify Ms. Burns under the NYSE objective independence test. However, CII’s independence definition describes a standard based simply upon employment at a third-party; serving as the CEO presumably raises more concerns. See CII’s Corporate Governance Policies (Most recently revised April 2010). In addition, ISS characterizes Burns as an “affiliated outsider” and noted in its most recent report that the board’s and ISS’s classification of independence differs. See ISS Proxy Advisory Services’ Wal-Mart Stores Inc. Report 2010, published May 21, 2010, page 7.

²¹ This calculus assumes \$10 billion of repurchases this year and that the board will announce a new repurchase program at the June annual shareholder meeting. See Citigroup, April 25, 2011 analyst report, “Walton Family Ownership Could Soon Exceed 50%.” Note that although the Citi analysis concludes the threshold will be crossed in 2012, by our calculation the Walton family may actually accrue a majority stake as soon as this year.

urge you to immediately clarify what steps the board intends to take to assure the continued independence of the board in the event that the Walton family stake does indeed reach majority ownership over the next quarter.

Conclusion: the Walmart board must take immediate steps to address shareholder concerns at the June 3rd annual meeting

Walmart is at a critical juncture, with a languishing stock price, disappointing P/E ratio, and significant questions regarding management's strategic plan going forward and the board's ability to independently evaluate and oversee management. At such a juncture, it is crucial that Walmart shareholders have representatives on the board who are committed to unambiguous pay-for-performance principles and strict standards of director independence. We believe it is therefore incumbent on the board to report to shareholders in advance of the June 3rd annual meeting how it intends to address investor concerns around the changed performance metrics and the independence implications stemming from the related-party transactions involving Mr. Breyer and Ms. Burns.

We further believe that shareholders are entitled to hear from the board what steps it intends to take to ensure the board's independence in the advent of Walton Enterprises LLC accumulating majority ownership of the Walmart common stock.

We look forward to discussing with you the board's process and timeline for addressing these concerns. Please contact my colleague Per Olstad at (202) 721-6027 to schedule a call or meeting at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "William Patterson". The signature is written in a cursive, somewhat stylized font.

William Patterson
Executive Director

cc: Board of Directors