

INTEGRYS ENERGY GROUP, INC.

Form DEF 14A

March 26, 2012

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**IntegrYS Energy Group, 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):

Table of Contents

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

x No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

(3) Per unit price or other underlying value of the 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):  
^

(4) Proposed maximum aggregate value of the transaction:  
^

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

(5) Total fee paid:

^

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

^

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

^

(3) Filing Party:

^

(4) Date Filed:

^

**Table of Contents**

**Integrys Energy Group, Inc.**

130 East Randolph Street, Chicago, Illinois 60601

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 10, 2012**

The Integrys Energy Group annual meeting will be held on Thursday, May 10, 2012, at 10:00 a.m., Central Daylight Time, at the Chase Auditorium in the Chase Tower, 10 South Dearborn Street, Chicago, Illinois. Our shareholders are asked to take action with respect to:

1. The election of Keith E. Bailey, William J. Brodsky, Albert J. Budney, Jr., Pastora San Juan Cafferty, Ellen Carnahan, Michelle L. Collins, Kathryn M. Hasselblad-Pascale, John W. Higgins, Paul W. Jones, Holly K. Koepfel, Michael E. Lavin, William F. Protz, Jr., and Charles A. Schrock to one-year terms on the board of directors or until their successors have been duly elected;
2. The approval of a non-binding advisory resolution to approve the compensation of our named executive officers;
3. The approval of an amendment to our articles of incorporation to adopt a majority voting standard for future director elections; and
4. The ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2012.

Also, as necessary or desirable, shareholders will consider and act upon any other business properly brought before the annual meeting and any adjournment or postponement thereof.

Our board of directors recommends a vote **FOR** each nominee identified in Item 1 above, and **FOR** Items 2, 3, and 4 above. Only shareholders of record at the close of business on March 13, 2012, are entitled to notice of and to vote at the annual meeting.

You may vote your shares over the Internet at [www.proxyvote.com](http://www.proxyvote.com), by calling toll-free (800) 690-6903 (if calling within the United States), by completing and mailing a traditional proxy card, or in person at the annual meeting. We request that you vote in advance whether or not you attend the annual meeting. You may revoke your proxy at any time prior to the vote at the annual meeting by revoting through the website or telephone number listed above, notifying us in writing, voting your shares in person at the meeting, or returning a later-dated proxy card.

INTEGRYS ENERGY GROUP, INC.  
BARTH J. WOLF  
*Vice President, Chief Legal Officer and Secretary*

Chicago, Illinois

March 26, 2012

**The board of directors is soliciting your proxy. Your vote is important no matter how large or small your holdings. To ensure your representation at the meeting, please vote as promptly as possible by using the Internet or telephone or by signing, dating and returning a traditional proxy card, if you requested one.**

**Important Notice Regarding the Availability of**

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

**Proxy Materials for the Shareholder Meeting to be Held on May 10, 2012**

**The proxy statement and annual report to shareholders, along with instructions on how to vote your shares, are available at [www.proxyvote.com](http://www.proxyvote.com).**

**Table of Contents**

**2012 ANNUAL MEETING OF SHAREHOLDERS**

**PROXY STATEMENT**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Frequently Asked Questions</u>	1
<u>Election of Directors</u>	6
<u>Advisory Resolution to Approve Compensation of Named Executive Officers</u>	13
<u>Amendment to Articles of Incorporation to Adopt Majority Voting in Future Director Elections</u>	14
<u>Ratification of Independent Registered Public Accounting Firm</u>	16
<u>Board Committees</u>	17
<u>Leadership Structure</u>	17
<u>Risk Oversight Role</u>	17
<u>Committee Membership</u>	19
<u>Audit Committee</u>	19
<u>Principal Fees and Services Paid to Independent Registered Public Accounting Firm</u>	20
<u>Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm</u>	21
<u>Compensation Committee</u>	22
<u>Environmental Committee</u>	22
<u>Financial Committee</u>	22
<u>Governance Committee</u>	22
<u>Available Corporate Governance Information</u>	23
<u>Ownership of Voting Securities</u>	24
<u>Beneficial Ownership</u>	24
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	25
<u>Equity Compensation Plan Information</u>	26
<u>Executive Compensation</u>	27
<u>Compensation Discussion and Analysis</u>	27
<u>Compensation Philosophy and Objectives</u>	27
<u>Overview of 2011 Business Results and Performance-Based Compensation</u>	29
<u>Outlook for our 2012 Executive Compensation Program</u>	30
<u>Role of the Compensation Committee and Advisors to the Committee</u>	30
<u>Setting Compensation Levels</u>	32
<u>Key Components of our Executive Compensation Program</u>	35
<u>Common Stock Ownership Guidelines</u>	44
<u>Summary Compensation Table for 2011</u>	45
<u>Grants of Plan-Based Awards Table for 2011</u>	47
<u>Outstanding Equity Awards Table for 2011</u>	49
<u>Option Exercises and Stock Vested Table for 2011</u>	51
<u>Pension Benefits Table for 2011</u>	52
<u>Nonqualified Deferred Compensation Table for 2011</u>	55
<u>Termination of Employment</u>	56
<u>Compensation Committee Report</u>	58
<u>Compensation Risk Assessment</u>	58
<u>Director Compensation</u>	59
<u>Audit Committee Report</u>	62

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

<u>Documents Incorporated by Reference in Form 10-K</u>	63
<u>Electronic Availability of Proxy Statement and Annual Report</u>	63
<u>Other Business</u>	64
<u>Future Shareholder Proposals</u>	64

**Table of Contents**

On or about March 26, 2012, we began mailing a notice containing instructions on how to access this proxy statement and our annual report online. We also began mailing a full set of the proxy materials to shareholders who had previously requested delivery of the materials in a paper copy format.

**FREQUENTLY ASKED QUESTIONS**

**Q: What is this proxy statement asking me to do?**

**A:** All shareholders of Integrys Energy Group are being asked to vote on the items noted in response to the question entitled "What are the items to be voted on?" below.

**Q: Who can attend the annual meeting?**

**A:** Anyone who is a shareholder as of the close of business on March 13, 2012, may attend the annual meeting and vote. This includes all shareholders holding Integrys Energy Group common stock on March 13, 2012. Each shareholder may be accompanied by one guest.

**Q: What constitutes a quorum?**

**A:** A quorum is the number of shares that must be voted at the meeting to lawfully conduct business. Votes of a majority of the shares entitled to vote constitute a quorum. As of the record date of March 13, 2012, a total of 78,287,906 shares were eligible to vote. Votes of 39,143,954 shares will constitute a quorum.

**Q: What are the items to be voted on?**

**A:** You are being asked to vote on 1) the election of 13 individuals to the board of directors, 2) the approval of a non-binding advisory resolution to approve the compensation of our named executive officers, 3) the approval of an amendment to our articles of incorporation to adopt a majority voting standard for future director elections, and 4) the ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2012, and to consider and act upon any other business that may be properly brought before the annual meeting and any adjournment or postponement thereof.

**Q: What happens if additional proposals are presented at the meeting?**

**A:** Our by-laws require advance notice of any matter to be brought before the annual meeting. We have not received any additional proposals that will need to be addressed at the meeting. Therefore, we are not required to present any other issues at the meeting. Additional issues may be presented at our discretion. If an additional proposal is brought up, the shares represented by proxy will be voted in accordance with the discretionary judgment of the appointed proxies, Charles A. Schrock and Barth J. Wolf.

**Q: How are directors elected?**



## Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

**A:** Assuming a quorum is present, a plurality of votes cast at the annual meeting is required to elect directors. Plurality means the 13 individuals who receive the largest number of votes will be elected as directors. However, we have adopted a majority voting policy that provides for a review of a director's service in the event a director receives less than a majority of the votes cast, to determine whether or not to require the resignation of such director. Assuming a quorum is present, shares not voted at the annual meeting will not affect the election of directors.

**Q: How are voting results determined for the other proposals?**

**A:** Assuming a quorum is present, voting results for the other proposals will be determined by majority vote. A majority vote will occur if the number of votes cast in favor of each of these

**Table of Contents**

proposals exceeds the number of votes cast in opposition to each proposal. Assuming a quorum is present, shares not voted at the annual meeting will not affect the outcome of these other proposals.

**Q: How are abstentions, broker non-votes and votes withheld treated?**

**A:** Abstentions, broker non-votes and votes withheld will be counted as present in determining whether there is a quorum for the meeting. However, they will not be counted as shares voted. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person, but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter.

**Q: Who tabulates the votes?**

**A:** Our independent agent, Broadridge Financial Solutions, Inc., tabulates the votes. Representatives of Integrys Energy Group's Investor Relations department will also assist with the vote tabulation.

**Q: Is my vote confidential?**

**A:** Yes. Broadridge Financial Solutions, Inc. will hold your vote in confidence. Whether you vote your shares by Internet, telephone or mail, your vote will be received directly by Broadridge Financial Solutions, Inc. Broadridge Financial Solutions, Inc. will serve as inspector of elections, count all the proxies or ballots submitted, and report the vote at the annual meeting on May 10, 2012. For a discussion of how shares in our employee stock ownership plan trusts are voted, please see the question below entitled "How are shares in the Employee Stock Ownership Plan Trusts voted?"

**Q: Do I need to attend the annual meeting in order to vote?**

**A:** No. You can vote your shares at any time prior to the annual meeting by using the Internet or telephone or by signing, dating and returning a traditional proxy card, if you requested one. You may also vote in person at the annual meeting.

**Q: Who can vote?**

**A:** Anyone who owned Integrys Energy Group common stock as of the close of business on March 13, 2012, can vote. Each eligible share of Integrys Energy Group common stock is entitled to one vote. Your vote is important, and we encourage you to vote promptly.

**Q: How do I vote?**

**A:** You may vote your shares by any of four methods:

- 1) Over the Internet at [www.proxyvote.com](http://www.proxyvote.com).

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

- 2) Over the telephone by calling toll-free (800) 690-6903 (if calling from within the United States),
  
- 3) Through the mail by returning a completed, signed and dated traditional proxy card, if you requested one, or
  
- 4) In person at the annual meeting.

If you received a notice and wish to vote by traditional proxy card, you can request a full set of materials by email or a paper copy at no charge through one of the following methods:

- 1) Over the Internet at [www.proxyvote.com](http://www.proxyvote.com),
  
- 2) Over the telephone by calling toll-free (800) 579-1639 (if calling from within the United States), or

---

**Table of Contents**

- 3) By email to sendmaterial@proxyvote.com (your email should contain the 12-digit control number, which is identified by an arrow on the notice, in the subject line).

Instructions to vote your shares over the Internet or by mail are provided on the notice. Voting instructions may also be found on a traditional proxy card, if you requested one. Your completed proxy, whether voted over the Internet, by telephone or by a traditional proxy card, will be voted according to your instructions. If you submit a completed proxy without marking voting instructions, your proxy will be voted FOR the election of Keith E. Bailey, William A. Brodsky, Albert J. Budney, Jr., Pastora San Juan Cafferty, Ellen Carnahan, Michelle L. Collins, Kathryn M. Hasselblad-Pascale, John W. Higgins, Paul W. Jones, Holly K. Koeppel, Michael E. Lavin, William F. Protz, Jr., and Charles A. Schrock; FOR the non-binding advisory resolution to approve the compensation of our named executive officers; FOR the approval of an amendment to our articles of incorporation to adopt a majority voting standard for future director elections; and FOR the ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2012. You have the right to change your vote anytime before the meeting by:

- 1) Revoting over the Internet or telephone,
- 2) Notifying us in writing,
- 3) Returning a later-dated traditional proxy card, or
- 4) Voting in person at the annual meeting.

By voting your shares, you also authorize your shares to be voted on any other business that may properly come before the annual meeting or any adjournment or postponement of the annual meeting in accordance with the judgment of the appointed proxies, Charles A. Schrock and Barth J. Wolf.

Except for shares held in the Employee Stock Ownership Plan Trusts as noted below, you may vote over the Internet or telephone until 11:59 p.m. Eastern Daylight Time on May 9, 2012. Votes provided through the mail via a completed traditional proxy card must be received by May 9, 2012.

**Q: If my broker holds my shares in street name, will my broker vote my shares for me?**

**A:** Your brokerage firm may permit you to vote by the Internet, by telephone or by mail. Brokerage firms have the authority under New York Stock Exchange rules to vote their client's unvoted shares on certain routine matters, like the ratification of Deloitte & Touche LLP as Integrys Energy Group's independent registered public accounting firm for 2012. So, even if you do not provide voting instructions to your brokerage firm, your brokerage firm may choose to vote for you on the ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for 2012. **All other items up for vote are not considered routine and can be voted only by your broker with your specific instructions. Therefore, we urge you to respond to your brokerage firm so that your vote will be cast.**

**Q: If my shares are held in street name, can I vote my shares in person at the annual meeting?**

**A:** If your shares are held in street name, you may vote your shares in person at the annual meeting **ONLY** if you bring a legal proxy to the annual meeting. The legal proxy would be provided by your broker, fiduciary, custodian or other nominee. You must request this legal proxy from your bank or broker as they will not automatically supply one to you.



**Table of Contents**

**Q: What are the board of directors' voting recommendations?**

**A:** The board of directors recommends shareholders vote **FOR** the election of all of our nominees as directors, **FOR** the non-binding advisory resolution approving the compensation of our named executive officers, **FOR** the approval of an amendment to our articles of incorporation to adopt a majority voting standard for future director elections, and **FOR** the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for 2012.

**Q: What if I receive duplicate mailings?**

**A:** We are required to provide an annual report and proxy statement or notice of availability of these materials to all shareholders of record. If you receive duplicate mailings, there are a few possible reasons. First, it could mean your shares are in more than one stock account and you have opted out of householding, which is a procedure allowing shareholders who have the same mailing address and last name to receive one copy of the materials. Second, if you are both a registered shareholder and a beneficial shareholder you will receive two separate mailings. Registered shareholders hold their shares with our transfer agent and registrar, American Stock Transfer; whereas, beneficial shareholders hold their shares with a bank, broker, nominee or other fiduciary. Lastly, it could mean the tax identification number or stock registration on one of the accounts differs. Please vote all the shares that you own. If you would like to consolidate your accounts and receive only one mailing in the future, please contact Integrys Energy Group's Investor Relations department at (800) 228-6888. This will save printing and mailing costs, so please take advantage of this option.

**Q: How are shares in the Employee Stock Ownership Plans voted?**

**A:** If you own stock in the Integrys Energy Group Employee Stock Ownership Plan, or the Peoples Energy Employee Stock Ownership Plan, you may vote your shares by any of the following three methods:

- 1) Over the Internet at [www.proxyvote.com](http://www.proxyvote.com),
- 2) Over the telephone by calling toll-free (800) 690-6903, or
- 3) Through the mail by returning a completed, signed and dated voting instruction card, if you requested one.

**Your vote must be received by May 8, 2012, to be voted at the annual meeting. Stock owned in these plans may NOT be voted in person at the annual meeting.**

Broadridge Financial Solutions, Inc. will tabulate the votes of participants for each of these plans. The results of the vote received from these plans' participants will serve as voting instructions to the plans' trustee. The trustee of these plans, as of the record date, is Wells Fargo Bank N.A. The trustee will vote the plan shares as instructed by plan participants. If a participant in the Integrys Energy Group Employee Stock Ownership Plan does not provide voting instructions, the trustee, Wells Fargo Bank N.A., will not vote the participant's shares in the plan. If a participant in the Peoples Energy Employee Stock Ownership Plan does not provide voting instructions, the trustee, Wells Fargo Bank N.A., will vote shares allocated to the participant's plan account in the same proportion as those votes cast by other plan participants submitting voting instructions. Broadridge Financial Solutions, Inc. and Wells Fargo Bank N.A. will keep how you vote your shares confidential.

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Shares held in the Peoples Energy Capital Accumulation Plan or the Peoples Energy Thrift Plan will be voted at the discretion of the trustee, Wells Fargo Bank N.A., and not by plan participants.

**Table of Contents**

**Q: How can a shareholder communicate with the board of directors directly?**

**A:** Any shareholder or interested party may communicate with the board of directors (or an individual director serving on the board of directors) by sending written communications, addressed to any director or to the board of directors as a group, in care of Integrys Energy Group, Inc., Attention: Secretary, 130 East Randolph Street, Chicago, Illinois 60601. The Secretary will ensure that this communication (assuming it is properly marked to the board of directors or a specific director) is delivered to the board of directors or the specified director, as the case may be. However, commercial advertisements or other forms of solicitation will not be forwarded.

**Q: When are shareholder proposals due to be included in the proxy for the 2013 annual meeting?**

**A:** Shareholder proposals must be received in writing by November 26, 2012, to be included in next year's proxy statement. Proposals should be submitted to Integrys Energy Group, Inc., Attention: Secretary, 130 East Randolph Street, Chicago, Illinois 60601.

**Q: How can I help reduce costs for Integrys Energy Group?**

**A:** If you received a paper copy of this proxy statement by mail, you can help Integrys Energy Group reduce costs by electing to receive a paper notice of availability by mail or an email message that will provide a link to these documents on our website. By opting to receive the notice of availability and accessing your proxy materials online, you will save us the cost of producing and mailing documents to you, reduce the amount of mail you receive, and help preserve environmental resources.

**Q: How can I subscribe to electronic delivery of annual reports and proxy materials?**

**A:** You can subscribe to electronic delivery of future annual reports and proxy materials by following the instructions listed above to vote using the Internet at [www.proxyvote.com](http://www.proxyvote.com) and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**Q: Where can I find voting results from the meeting?**

**A:** The annual meeting voting results will be published in a Form 8-K, available no later than May 16, 2012, on Integrys Energy Group's website at [www.integrysgroup.com/investor](http://www.integrysgroup.com/investor) and can be accessed by selecting SEC Filings.

**Q: May I review the presentation made at the meeting if I can't attend?**

**A:** Yes. The speech from our Chairman, President and Chief Executive Officer will be posted on Integrys Energy Group's website at [www.integrysgroup.com/investor](http://www.integrysgroup.com/investor), and can be accessed by selecting Presentations.



**Table of Contents**

**ELECTION OF DIRECTORS**

Our board of directors has nominated Keith E. Bailey, William J. Brodsky, Albert J. Budney, Jr., Pastora San Juan Cafferty, Ellen Carnahan, Michelle L. Collins, Kathryn M. Hasselblad-Pascale, John W. Higgins, Paul W. Jones, Holly K. Koepfel, Michael E. Lavin, William F. Protz, Jr., and Charles A. Schrock for election at our 2012 annual meeting, all of whom will serve one-year terms until the 2013 annual meeting. One current director, James L. Kemerling, will not be standing for re-election due to retirement, and our board of directors has nominated Holly K. Koepfel to fill that opening.

All of the above director nominees are currently serving as directors of Integrys Energy Group, except for Holly K. Koepfel, whom our board of directors chose to nominate for election as a new director. Additionally, Paul W. Jones was elected by our board of directors as a new director effective December 15, 2011. Both Mr. Jones' election and Ms. Koepfel's nomination were recommended by the board's governance committee in conjunction with an ongoing director succession planning process. The governance committee engaged an independent board search firm to assist in identifying desired characteristics for new directors and to recommend potential director candidates. Both Mr. Jones and Ms. Koepfel were identified and recommended to the governance committee by the independent board search firm as potential director candidates that possessed important characteristics desired for a new director. For Mr. Jones, these characteristics included broad business background, financial expertise, public company board experience, and merger and acquisition experience, and for Ms. Koepfel, these characteristics included a broad business background, financial expertise, public company board experience, utility industry experience, merger and acquisition experience, and diversity.

The tables on the following three pages set forth certain other information, as of March 1, 2012, about the individuals who have been nominated for election at our 2012 annual meeting. The role of an effective director inherently requires certain personal qualities, such as integrity, as well as the ability to comprehend, discuss and critically analyze materials and issues that are presented so that the director may exercise judgment and reach conclusions in fulfilling his or her duties and fiduciary obligations. We believe that the specific background of each nominee set forth in the information below, including, as applicable, past service with our company, evidences his or her ability to effectively serve as a director of Integrys Energy Group. Further, each nominee's background has provided the nominee with business acumen and a thoughtful approach to addressing issues that confront businesses. This combination of business background and skills and attributes led to the conclusion that each of the nominees should stand for election as a director of Integrys Energy Group.

The board of directors has no reason to believe that any of the nominees will be unable or unwilling to serve as a director if elected. If any nominee is unable or unwilling to serve, the shares represented by proxies solicited by the board of directors will be voted for the election of another person the board of directors may recommend.

**The board of directors recommends a vote FOR the election to the board of directors for each of the nominees listed on pages 7 through 9. Proxies solicited by the board of directors will be voted FOR the nominees unless the shareholder has specified otherwise.**

**Table of Contents**

Director nominees for election at our 2012 annual meeting are as follows:

<b>Name</b>	<b>Age</b>	<b>Nominee s Qualifications</b>	<b>Years</b>
Keith E. Bailey (1)	69	Director	2005 present*
		Integrys Energy Group, Inc.	
		Chief Executive Officer and Chairman	1994 2002
		President	1992 2001
		Chief Financial Officer	1986 1992
William J. Brodsky (2)	68	The Williams Companies, Inc. (Energy company)	
		Director	1997 present*
		Integrys Energy Group, Inc.	
		Chairman and Chief Executive Officer	2010 present
		CBOE Holdings, Inc.	
Albert J. Budney, Jr.	64	Chairman and Chief Executive Officer	1997 present
		Chicago Board Options Exchange	
		Chief Executive Officer	1985 1997
		Chicago Mercantile Exchange	
Albert J. Budney, Jr.	64	Director	2002 present
		Integrys Energy Group, Inc.	
		President and Director	1999 2002
		Niagara Mohawk Holdings, Inc. (Holding company for electric and natural gas operations)	

		President and Director		
		Niagara Mohawk Power Corporation	1995	1999
		(Regulated electric and natural gas utility)		
		Managing Vice President, Power Services Group		
		UtiliCorp United, Inc.	1994	1995
		(Holding company for electric and gas operations)		
		President		
		Missouri Public Service Company	1993	1994
		(Regulated electric and natural gas utility)		
Pastora San Juan Cafferty (3)	71	Director	1988	present*
		IntegrYS Energy Group, Inc.		
		Professor <i>emerita</i>	2005	present
		Professor	1985	2005
		University of Chicago		
Ellen Carnahan	56	Director	2003	present
		IntegrYS Energy Group, Inc.		
		Principal	2008	present
		Machrie Enterprises LLC		
		(Private equity and venture capital fund advisory services)		
		Managing Director	1988	2009
		William Blair Capital Management LLC		
		(Venture capital fund management)		

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Managing Director

Seyen Capital Management LLC

2006 2008

(Venture capital fund management)

\* Years of service includes years of service as a director of Peoples Energy Corporation prior to the merger with Integrys Energy Group, Inc. in 2007.

- (1) Mr. Bailey also currently serves on the board of directors for the following publicly held companies: Apco Oil & Gas International Inc., MarkWest Energy Partners, L.P., and Cloud Peak Energy Inc. At Cloud Peak Energy Inc., he currently serves as Non-Executive Chairman of the Board.
- (2) Mr. Brodsky also currently serves on the board of directors for the following publicly held company: CBOE Holdings, Inc.
- (3) Ms. Cafferty also currently serves on the board of directors for the following publicly held company: Waste Management, Inc. She has also served on the board of directors for the following publicly held company within the last five years: Kimberly-Clark Corporation.

**Table of Contents**

Name	Age	Nominee s Qualifications	Years
Michelle L. Collins (4)	51	Director	2011 present
		Integrys Energy Group, Inc.	
			2007 present
		President	
		Cambium LLC	
		(Business and financial advisory firm)	
			1998 2006
Kathryn M. Hasselblad-Pascale	64	Managing Director and Co-Founder	
		Svoboda Capital Partners, LLC	
		(Private equity firm)	
			1992 1997
		Principal, Corporate Finance	
		Associate, Corporate Finance	
John W. Higgins	65	William Blair & Company, LLC	1986 1991
		(Investment banking firm)	
		Director	1987 present
		Integrys Energy Group, Inc.	
			1997 present
John W. Higgins	65	Managing Partner	
		Hasselblad Machine Company, LLP	
		(Manufacturer of automatic screw machine products)	
		Director	2003 present*
John W. Higgins	65	Integrys Energy Group, Inc.	
			1980 present
		Chairman and Chief Executive Officer	
John W. Higgins	65	Higgins Development Partners, LLC	
		(Real estate development services)	

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Paul W. Jones (5)	63 Director	2011 present
	Integrys Energy Group, Inc.	
	Chairman and Chief Executive Officer	2005 present
	President and Chief Operating Officer	2004 2005
	A.O. Smith Corporation	
	(Manufacturer of electric motors and water heating equipment)	1998 2002
	Chairman and Chief Executive Officer	
	U.S. Can Corporation	1989 1998
	(Manufacturer of container products)	
	Chief Executive Officer	
	Greenfield Industries, Inc.	
	(Manufacturer of cutting tools and material removal products)	

\* Years of service includes years of service as a director of Peoples Energy Corporation prior to the merger with Integrys Energy Group, Inc. in 2007.

- (4) Ms. Collins also currently serves on the board of directors for the following publicly held company: Molex, Inc. She also currently serves as a trustee for the following registered investment funds: Wanger Advisors Trust and Columbia Acorn Trust. She has also served on the board of directors for the following publicly held companies within the last five years: Bucyrus International, Inc. and CDW Corporation.
- (5) Mr. Jones also currently serves on the board of directors for the following publicly held companies: Federal Signal Corporation and A.O. Smith Corporation. He has also served on the board of directors for the following publicly held company within the last five years: Bucyrus International, Inc.

**Table of Contents**

Name	Age	Nominee s Qualifications	Years
Holly K. Koepfel (6)	53	Co-Head	2010 present
		Citi Infrastructure Investors	
		(Investment fund)	
			2006 2009
		Executive Vice President and Chief Financial Officer	2004 2006
		Executive Vice President of Utilities East	2003 2004
		Executive Vice President, Commercial Operations	2002 2003
		Executive Vice President, Energy Services	2002
		Senior Vice President, Corporate Development and Strategy	2000 2002
Michael E. Lavin (7)	66	Director	2003 present*
		Integrys Energy Group, Inc.	
		Midwest Area Managing Partner	1993 2002
		Audit Partner	
		KPMG, LLP	1977 2002
		(Public accounting firm)	
William F. Protz, Jr.	67	Director	2001 present
		Integrys Energy Group, Inc.	
		Consultant	
		President and Chief Executive Officer	2003 2006
Charles A. Schrock	58	Santa s Best LLP	1991 2003
		(Manufacturer of Christmas decorations and accessories)	
		Director, Chairman, President and Chief Executive Officer	2010 present
		Director, President and Chief Executive Officer	2009 2010
		Integrys Energy Group, Inc.	

President and Chief Executive Officer

President

2008 2009

President and Chief Operating Officer    Generation Wisconsin Public Service Corporation

2007 2008

2004 2007

Senior Vice President  
WPS Resources Corporation

2003 2004

President  
WPS Power Development, Inc.

2001 2003

\* Years of service includes years of service as a director of Peoples Energy Corporation prior to the merger with Integrys Energy Group, Inc. in 2007.

(6) Ms. Koeppel also currently serves on the board of directors for the following publicly held company: Reynolds American Inc.

(7) Mr. Lavin also currently serves on the board of directors for the following publicly held company: Tellabs, Inc. He has also served on the board of directors for the following publicly held company within the last five years: SPSS Inc.



---

## **Table of Contents**

### **Director Independence**

On February 9, 2012, the board of directors reviewed the business and other relationships of all current directors of Integrys Energy Group, including James L. Kemerling, who will continue to be a member of the board of directors until his expected retirement at our 2012 annual meeting. The board of directors affirmatively determined that all current directors other than Charles A. Schrock are independent as defined in the New York Stock Exchange listing standards, meet the categorical independence standards adopted by the board of directors (set forth below) and have no other material relationships with Integrys Energy Group. In addition, Keith E. Bailey, Pastora San Juan Cafferty, Michelle L. Collins and Michael E. Lavin meet additional independence standards for audit committee members.

In reaching its determination that all current directors other than Charles A. Schrock are independent, the board of directors reviewed any transactions, relationships or arrangements that directors had with Integrys Energy Group during the last three years. Matters reviewed included the following types of transactions, relationships or arrangements:

William J. Brodsky, Pastora San Juan Cafferty, Kathryn M. Hasselblad-Pascale, John W. Higgins and James L. Kemerling are employed by entities that purchased energy-related services (electricity and natural gas) from affiliates of Integrys Energy Group. The amounts involved were determined not to be material enough to affect their independence.

James L. Kemerling is employed by an entity from which an affiliate of Integrys Energy Group has purchased gasoline, lubricating oils, and diesel fuel through a competitive bidding process for use in transportation fleets and electric generation units. The amount involved was determined not to be material enough to affect his independence.

Keith E. Bailey, Pastora San Juan Cafferty, Ellen Carnahan, Michelle L. Collins, Kathryn M. Hasselblad-Pascale, Paul W. Jones and Michael E. Lavin are affiliated with universities or other non-profit organizations to which affiliates of Integrys Energy Group have made charitable donations from time to time. The amounts were determined not to be material enough to affect their independence.

Keith E. Bailey serves as Non-Executive Chairman of an entity from which an affiliate of Integrys Energy Group has purchased coal through a competitive bidding process for use in electric generation units. Mr. Bailey is not an employee of the supplier and in his role as Non-Executive Chairman of the supplier is not involved in the decision-making process with respect to coal supply bids. Mr. Bailey's role as Non-Executive Chairman for this supplier was determined not to affect his independence based on the facts and circumstances noted above.

Based upon information obtained in conjunction with the nomination of Holly K. Koeppel, Ms. Koeppel has also been determined to be independent as defined in the New York Stock Exchange listing standards, to meet the additional independence standards for audit committee members, to meet the categorical independence standards adopted by the board of directors (set forth below), and to have no other material relationships with Integrys Energy Group.

#### *Categorical Independence Standards for Directors*

A director who at all times during the previous three years has met all of the following categorical standards and has no other material relationships with Integrys Energy Group will be deemed to be independent:

1. Integrys Energy Group has not employed the director and has not employed (except in a non-executive officer capacity) any of his or her immediate family members. Employment as an interim Chairman or Chief Executive Officer does not disqualify a director from being considered independent following that employment.
2. Neither the director, nor any of his or her immediate family members, has received more than \$120,000 per year in direct compensation from Integrys Energy Group, other than director and committee fees, and pension or other forms of deferred

compensation for prior service

---

**Table of Contents**

(provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chairman or Chief Executive Officer need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of Integrys Energy Group need not be considered in determining independence under this test.

3. The director (i) is not a current partner or employee of Integrys Energy Group's present internal or external auditor, (ii) was not within the last three years a partner or employee of Integrys Energy Group's present internal or external auditor that personally worked on Integrys Energy Group's audit within that time, (iii) does not have an immediate family member who is a current partner at Integrys Energy Group's present internal or external auditor, (iv) does not have an immediate family member who is a current employee of the company's present internal or external auditor that personally works on Integrys Energy Group's audit, and (v) does not have an immediate family member who was within the last three years a partner or employee of Integrys Energy Group's present internal or external auditor that personally worked on Integrys Energy Group's audit within that time.
4. Neither the director, nor any of his or her immediate family members, has been part of an interlocking directorate in which any of Integrys Energy Group's present executives serve on the compensation (or equivalent) committee of another company that employs the director or any of his or her immediate family members in an executive officer capacity.
5. Neither the director, nor any of his or her immediate family members (except in a non-executive officer capacity), has been employed by a company that makes payments to, or receives payments from, Integrys Energy Group for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.
6. Neither the director, nor any of his or her immediate family members, has been an employee, officer or director of a foundation, university or other non-profit organization to which Integrys Energy Group gives directly, or indirectly through the provision of services, more than \$1 million per annum or 2% of the total annual donations received (whichever is greater).

In addition to satisfying the criteria set forth above, directors who are members of Integrys Energy Group's audit committee will not be considered independent for purposes of membership on the audit committee unless they satisfy the following additional criteria:

1. A director who is a member of the audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board of directors committee, accept directly or indirectly any consulting, advisory, or other compensatory fee from Integrys Energy Group or any subsidiary thereof, provided that, unless the rules of the New York Stock Exchange provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Integrys Energy Group (provided that such compensation is not contingent in any way on continued service).
2. A director who is a member of the audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board of directors committee, be an affiliated person of Integrys Energy Group.
3. If an audit committee member simultaneously serves on the audit committees of more than two other public companies, then the board of directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on Integrys Energy Group's audit committee. Integrys Energy Group will disclose this determination in its proxy statement.

## **Table of Contents**

### **Related Person Transaction Policy**

Our board of directors has adopted a written policy regarding related person transactions. Pursuant to this policy, all related person transactions are subject to approval or ratification. Each of our executive officers, directors or nominees for director is required to disclose to the governance committee certain information concerning related person transactions. Disclosure to the governance committee should occur on a timely basis after the executive officer, director or nominee for director becomes aware of the related person transaction, but in no case later than the time of the next circulation of an annual questionnaire requesting disclosure of any related person transactions that have occurred or are proposed to occur.

The governance committee's decision whether or not to approve or ratify a related person transaction is to be made in light of the governance committee's determination that consummation of the transaction is not or was not contrary to our best interests. In determining whether or not a related person transaction is not or was not contrary to our best interests, the governance committee considers the facts and circumstances regarding such transaction, including, among other things, the amounts involved, the relationship of the related person with our company and the terms that would be available in a similar transaction with an unaffiliated third party. The directors also consider their fiduciary duties, our company's obligations under applicable securities law, including disclosure obligations and director independence rules, and other applicable law in evaluating any related person transaction.

With respect to related person transactions:

A related person means any person who is, or was at some time since the beginning of the last fiscal year, (a) an executive officer, director or nominee for election as a director, (b) a greater than 5% beneficial owner of our common stock, or (c) an immediate family member of the foregoing; and

A related person transaction means any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which (a) the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year, (b) we are a participant, and (c) any related person has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10% beneficial owner of another entity).

Certain related person transactions are deemed pre-approved, including, among others, (a) any transaction with another company, or charitable contribution, grant or endowment to a charitable organization, foundation or university, at which a related person's only relationship is as an employee (other than an executive officer), director or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of \$1 million or 2% of the company's total annual revenues or the charitable organization's total annual receipts, and (b) any public utility services transactions or transactions (i) where the rates or charges involved are determined by competitive bids or (ii) that are made in the ordinary course of business on terms no less favorable to the company than those generally available from an unaffiliated third party under the same or similar circumstances.

**Table of Contents**

**ADVISORY RESOLUTION TO APPROVE COMPENSATION OF NAMED EXECUTIVE OFFICERS**

Our board of directors is committed to and recognizes the importance of responsible executive compensation practices. As discussed below, we have designed our executive compensation program to attract, motivate, reward, and retain senior management as required to achieve our corporate objectives and to increase long-term shareholder value.

As required by Section 14A of the Securities Exchange Act of 1934, we are providing our shareholders with an opportunity to provide an advisory vote to approve the executive compensation of our named executive officers. This advisory vote, which is commonly referred to as a Say on Pay Vote, is not binding. However, our board of directors and the compensation committee will review and consider the outcome of the advisory vote when making future compensation decisions for our executive officers. Shareholders are asked to vote on the following resolution:

RESOLVED, that the compensation paid to our named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, and compensation tables and any related material disclosed in this proxy statement, is hereby APPROVED.

To assist shareholders in this non-binding advisory vote, below is a brief summary that describes the key fundamental aspects of our executive compensation program. In addition to reviewing the summary below, we encourage you to carefully review the information on our compensation policies and decisions regarding our named executive officers presented in the Compensation Discussion and Analysis on pages 27 to 44, as well as the information contained in the Compensation Tables on pages 45 to 57.

We employ a strong pay-for-performance philosophy for our entire senior management team, including our named executive officers. Our compensation philosophy and compensation programs have resulted in compensation that reflects our financial results and other performance factors described in the Compensation Discussion and Analysis, as well as stock price performance. We achieve these objectives through the following:

A total compensation package for our named executive officers that is targeted at the median of our peer companies;

A total compensation package that is structured so that a majority of each named executive officer's compensation opportunities are delivered through short- and long-term incentives;

A short-term incentive driven primarily by our financial earnings performance, and secondarily by key nonfinancial metrics;

A long-term incentive program that, in keeping with prevailing utility industry practice, primarily uses performance shares that are driven by our relative total shareholder return as compared to other utility industry peers, along with a mix of stock options and restricted stock units to further tie compensation to stock price performance as well as enhance retention; and

Stock ownership guidelines that continue to tie executives' interests to shareholders over the long term.

Furthermore, we do not use employment contracts with our executive team, nor do we provide severance protection other than following a change in control of our company. We believe our change-in-control agreements are in the best interests of our shareholders. Our change-in-control agreements contain double-trigger provisions (requiring both a change in control and subsequent employment termination before payments are made).

**The board of directors recommends a vote FOR the non-binding advisory resolution set forth above. Proxies solicited by the board of directors will be voted FOR this proposal unless the shareholder has specified otherwise.**



---

**Table of Contents**

**AMENDMENT TO ARTICLES OF INCORPORATION TO ADOPT MAJORITY VOTING IN FUTURE DIRECTOR ELECTIONS**

**Background**

Wisconsin law provides that directors are elected by a plurality of the votes cast unless otherwise specified in a corporation's articles of incorporation. Because our articles of incorporation do not specify otherwise, our directors are currently elected by a plurality of the votes cast. This means that the director nominees with the most votes cast in their favor are elected.

Under a plurality voting system, a nominee is elected if he or she receives very few, or even a single vote, regardless of how many shareholders withhold their votes for that nominee (essentially, a vote AGAINST a director). As discussed below, this is appropriate in contested elections. On the other hand, majority voting in uncontested director elections is widely considered a good corporate governance practice because it gives effect to shareholder votes AGAINST a director nominee, as it requires a director to receive more FOR than AGAINST votes to be elected.

However, in contested elections, there are more director nominees than available board seats. Thus, majority voting in contested elections can result in fewer candidates receiving a majority vote than there are candidates up for election. Therefore, it is possible that fewer directors will be elected to the board than the number of available board seats. In contrast, plurality voting in contested elections results in the election of the director nominees who receive the highest number of FOR votes, with the number of directors elected equal to the number of available board seats, thus ensuring that a full slate of directors is elected.

We believe that the ability to elect directors is an important aspect of our shareholders' right to vote. Our board of directors believes it is appropriate for our shareholders to approve an amendment to our articles of incorporation to adopt majority voting in uncontested future director elections, while maintaining plurality voting in contested future director elections. Our board of directors believes that the adoption of a majority voting standard in uncontested director elections is in the best interest of the company and its shareholders, as it would establish an appropriate vote standard for board nominees and enhance board accountability, which should improve the performance of the board and its members.

**The Majority Voting Amendment**

The board of directors hereby requests that shareholders affect the foregoing by voting in favor of the amendment to Article 6 of our articles of incorporation as set forth below. Currently, the existing language of Article 6 of our articles of incorporation sets forth our former registered agent and registered office and is not required to be in the articles of incorporation and, therefore, the existing language will be deleted in its entirety and will be replaced with the following language:

**ARTICLE 6**

Except as provided in this Article 6, an individual shall be elected a director of the Corporation if the number of votes cast favoring that individual's election exceeds the number of votes cast opposing that individual's election at any meeting for the election of directors at which a quorum is present and the election is uncontested. If the Board of Directors determines that the number of persons properly nominated to serve as directors of the Corporation exceeds the number of directors to be elected, resulting in a contested election, then directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at a meeting at which a quorum is present. For purposes of this Article 6, abstentions will not be considered as a vote cast in the election of directors.

If approved by shareholders, this amendment will become effective upon the filing of articles of amendment to our articles of incorporation with the Wisconsin Department of Financial Institutions. We would make such a filing promptly following the annual meeting. The new standard would be applicable to the election of directors at the 2013 annual meeting of shareholders.

**Table of Contents**

**Our By-Laws and Corporate Governance Guidelines**

If shareholders approve this amendment to our articles of incorporation, our board of directors intends to amend paragraph (a) of Section 8 of Article II of our by-laws to reflect that the new director voting standard is set forth in our articles of incorporation.

Under Wisconsin law, if an incumbent director nominee is not re-elected, the incumbent director will continue to serve on the board of directors until his or her successor is elected and qualified. New nominees not already serving on the board and who fail to receive more votes in favor of their election than votes opposing their election in uncontested elections will not be elected to the board in the first instance. If shareholders approve the proposed amendment to our articles of incorporation, the board of directors would determine, under policies it would adopt, the status of incumbent director nominees who are not elected. We expect these policies, which would be adopted through an amendment to our corporate governance guidelines, would be largely equivalent to the resignation policy in our corporate governance guidelines which was adopted by the board in 2010.

**The board of directors recommends a vote FOR the amendment to our articles of incorporation to adopt a majority voting standard for future director elections. Proxies solicited by the board of directors will be voted FOR approval of the amendment unless the shareholder has specified otherwise.**



**Table of Contents**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee selected Deloitte & Touche LLP, an independent registered public accounting firm, to audit the consolidated financial statements of Integrys Energy Group and its subsidiaries for the year ending December 31, 2012, as well as its internal control over financial reporting as of December 31, 2012, and requests that the shareholders ratify such selection. If shareholders do not ratify the selection of Deloitte & Touche LLP, the audit committee will reconsider the selection.

Audit services provided by Deloitte & Touche LLP in 2011 included the audit of the consolidated financial statements of Integrys Energy Group and its subsidiaries, reviews of interim condensed consolidated financial statements, the audit of Integrys Energy Group's internal control over financial reporting as of December 31, 2011, and consultations on matters related to accounting and financial reporting.

Deloitte & Touche LLP also provided certain audit-related and non-audit services to Integrys Energy Group and its subsidiaries during 2011, which were reviewed by the audit committee and are more fully described later in this proxy statement.

Representatives of Deloitte & Touche LLP are expected to attend the annual meeting, where they will be available to respond to questions and, if they desire, to make a statement.

**The board of directors recommends a vote FOR the ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2012. Proxies solicited by the board of directors will be voted FOR ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2012 unless the shareholder has specified otherwise.**

**Table of Contents**

**BOARD COMMITTEES**

**Leadership Structure**

Our board of directors is led by a Chairman, while our management team is led by a Chief Executive Officer (CEO), both positions being elected by our board of directors. Our by-laws and corporate governance guidelines provide our board of directors with the discretion to determine whether to combine or separate the positions of Chairman and CEO. Pursuant to our by-laws, if there is a separate Chairman, that person can be either an Executive Chairman who is employed as an executive officer of our company or can be a Non-Executive Chairman who is a non-employee director. Over time, our board of directors has chosen to combine and separate the Chairman and CEO roles at different points in time, based on the circumstances at that point in time. Over the last several years, our board of directors has appointed both a combined Chairman and CEO and separated the Chairman and CEO roles, first utilizing a Non-Executive Chairman, and then, most recently, utilizing an Executive Chairman.

Our board of directors currently believes it is in the best interests of our company to combine the positions of Chairman and CEO because this provides our company with unified leadership and direction. In addition, our current Chairman and CEO, Charles A. Schrock, has an in-depth knowledge of our business that enables him to effectively set appropriate board agendas and ensure appropriate processes and relationships are established with both management and the board of directors, as our board works together to oversee our management and affairs.

Because our Chairman is not an independent director, our independent directors believe it is appropriate to appoint an independent director as a Lead Independent Director. Pursuant to our current corporate governance guidelines, if appointed, the Lead Independent Director serves a one-year term and may not serve more than three consecutive terms. Our Lead Independent Director works with our Chairman and CEO and other board members to provide strong, independent oversight of our management and affairs. Among other things, our Lead Independent Director serves as the principal liaison between the Chairman and our independent directors and chairs executive sessions that consist of only our independent directors. A more detailed description of the roles and responsibilities of our Chairman and of the Lead Independent Director is set forth in our corporate governance guidelines available on our website at [www.integrysgroup.com/investor](http://www.integrysgroup.com/investor), and can be accessed by selecting Corporate Governance, then Governance Documents.

Our current Lead Independent Director is James L. Kemerling. He was selected by our independent directors to serve one-year terms that commenced in May 2010 and May 2011. In conjunction with Mr. Kemerling's upcoming retirement from our board of directors effective in May 2012, our independent directors have selected Albert J. Budney, Jr. to be our Lead Independent Director effective in May 2012 for a one-year term. This selection is subject to Mr. Budney being re-elected as a director at our 2012 annual meeting.

**Risk Oversight Role**

Risk oversight is an important function of our board of directors. Our board of directors oversees an enterprise-wide approach to risk management that our management team has designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance, minimize our overall risk profile, and enhance shareholder value. Our board of directors recognizes that a fundamental part of risk oversight is not only understanding the risks we face and what steps our management team is taking to manage those risks, but also conferring with management as to what level of risk is appropriate for our businesses. The involvement of our full board of directors in setting our business strategy is a key part of assessing what constitutes an appropriate level of risk for our businesses. Selected members of our full board of directors (including the Lead Independent Director and the chairs of each committee) also participate in our

## **Table of Contents**

annual enterprise risk management assessment, which is facilitated by our management team. In this process, risk is assessed throughout our businesses. Our management team assesses and prioritizes the risks identified during our annual assessment process, and these risks are then factored into our overall strategic business planning process that is reviewed with our board of directors.

While our board of directors has overall responsibility for risk oversight, the board's various committees assist the board in carrying out the board's responsibility for risk oversight. In particular, the audit committee, which has specific responsibility for risk oversight related to financial reporting, also has the primary role of assisting our board of directors by ensuring that we have an appropriate overall risk oversight process. Each quarter, our management team refreshes and reassesses the status of the identified risks, including efforts taken to mitigate the risks. Our management team provides an enterprise-wide risk report on a quarterly basis to the audit committee, at which time the audit committee reviews the enterprise-wide risk report and inquires about management's mitigation efforts. The audit committee provides regular reports after these committee meetings to the full board of directors to ensure that the full board receives regular updates related to their risk oversight role. Additionally, on an annual basis, our management team directly provides the full board of directors with a report on the enterprise-wide risk management process and the status of management's efforts to mitigate the identified risks.

In addition to the lead role that the audit committee plays in assisting the board of directors in its risk oversight function, our other board committees are also involved in providing risk oversight as appropriate. For example:

Our compensation committee regularly reviews identified risk areas related to our executive compensation programs and also conducts an annual risk assessment of our compensation programs for all of our employees to ensure that our programs do not encourage excessive risk-taking.

Our environmental committee regularly reviews environmental-related compliance and related risk areas, and effective in February 2012 this committee added oversight of safety-related compliance and related risk areas.

Our financial committee regularly reviews our financial plans and liquidity, including the amount and form of our capital financings, and also provides oversight as to a detailed risk policy that covers our commodity hedging and trading programs.

Our governance committee provides oversight over our ethics policy to ensure that the appropriate tone at the top is being provided. To facilitate the oversight role of these committees, our management team provides status reports on various risk areas identified during the annual enterprise-wide risk assessment process to either the full board of directors or the various committees throughout the year.

**Table of Contents****Committee Membership**

The following table lists the committees of our board of directors, their members as of December 31, 2011, and the number of meetings held in 2011:

Director	2011 Committees of Board of Directors					
	Board of Directors	Audit	Compensation	Environmental	Financial	Governance
Keith E. Bailey	X	X			X*	
William A. Brodsky	X		X		X	
Albert J. Budney, Jr.	X		X	X		
Pastora San Juan Cafferty	X	X		X		
Ellen Carnahan	X				X	X*
Michelle L. Collins (1)	X	X				X
Kathryn M. Hasselblad-Pascale	X		X	X*		
John W. Higgins	X		X*			X
Paul W. Jones (2)	X		X		X	
James L. Kemerling, Lead Independent Director	X					
Michael E. Lavin	X	X*			X	
William F. Protz, Jr.	X			X		X
Charles A. Schrock, Chairman	X					
Number of Meetings in 2011	6	8	5	4	6	9

\* Denotes chair of committee.

(1) Ms. Collins was elected to the board of directors effective May 11, 2011.

(2) Mr. Jones was elected to the board of directors effective December 15, 2011.

In 2011, all directors attended more than 75% of the aggregate number of all board of directors meetings and their assigned committee meetings. Under our corporate governance guidelines, all directors are expected to attend the annual meeting of shareholders. All directors attended the 2011 annual meeting.

As Chairman, Mr. Schrock presides at all meetings of the board of directors, except during executive sessions of the non-management directors. Executive sessions of non-management directors (without management present) are held at each regularly scheduled board of directors meeting, with the Lead Independent Director presiding during each executive session. Any shareholder or interested party wishing to communicate with the Lead Independent Director may contact him by sending a written communication, addressed to the Lead Independent Director, in care of Integrys Energy Group, Inc., Attention: Secretary, 130 East Randolph Street, Chicago, Illinois 60601. The Secretary will ensure that this communication (assuming it is properly marked to the Lead Independent Director) is delivered to the Lead Independent Director. However, commercial advertisements or other forms of solicitation will not be forwarded.

**Audit Committee**

On December 31, 2011, the audit committee consisted of four independent directors as follows: Keith E. Bailey, Pastora San Juan Cafferty, Michelle L. Collins, and Michael E. Lavin Chair.

The board of directors has determined that all four members meet audit committee financial expert requirements as defined by the Securities and Exchange Commission ( SEC ). Mr. Bailey currently



**Table of Contents**

serves on the audit committee of Apco Oil & Gas International Inc., Ms. Cafferty currently serves on the audit committee of Waste Management, Inc., Ms. Collins currently serves on the audit committee of Molex, Inc., and Mr. Lavin currently serves on the audit committee of Tellabs, Inc.

IntegrYS Energy Group's securities are listed on the New York Stock Exchange and are governed by its listing standards. All members of the audit committee meet the independence standards of the New York Stock Exchange and Section 10A-3 under the Securities Exchange Act of 1934. In compliance with New York Stock Exchange listing standards, in 2011 the audit committee received an annual report of the independent auditors regarding their internal quality control procedures, material issues raised from quality control reviews and government inquiries and relationships between the firm and IntegrYS Energy Group.

The audit committee is directly responsible for the selection, compensation and oversight of Deloitte & Touche LLP as its independent registered public accounting firm. Deloitte & Touche LLP reports directly to the audit committee. The audit committee is responsible for overseeing the resolution of any disagreements between Deloitte & Touche LLP and management. A written charter defining the responsibilities of the audit committee has been adopted and is reviewed annually.

*The information contained in this proxy statement with respect to the audit committee charter shall not be deemed to be soliciting material or deemed to be filed with the SEC or subject to Regulation 14A of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically requested by IntegrYS Energy Group or incorporated by reference in documents otherwise filed.*

**Principal Fees and Services Paid to Independent Registered Public Accounting Firm**

The following is a summary of the fees billed to IntegrYS Energy Group by Deloitte & Touche LLP for professional services performed for 2011 and 2010:

Fees	2011	2010
Audit Fees (a)	\$ 2,886,700	\$ 3,281,600
Audit Related Fees (b)	414,050	458,387
Tax Fees (c)	0	492,213
All Other Fees (d)	16,484	12,029
<b>Total Fees</b>	<b>\$ 3,317,234</b>	<b>\$ 4,244,229</b>

- (a) *Audit Fees.* Consists of aggregate fees billed to IntegrYS Energy Group and its subsidiaries for professional services rendered for the audits of the annual consolidated financial statements, reviews of the interim condensed consolidated financial statements included in quarterly reports and audits of the effectiveness of internal control over financial reporting of IntegrYS Energy Group and its subsidiaries. Audit fees also include services that are normally provided in connection with statutory and regulatory filings or engagements, including comfort letters, consents and other services related to SEC matters, and consultations arising during the course of the audits and reviews concerning financial accounting and reporting standards.
- (b) *Audit Related Fees.* Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the consolidated financial statements or internal control over financial reporting and are not reported under Audit Fees. These services include employee benefit plan audits, accounting consultations in connection with potential transactions, due diligence projects, consultations concerning financial accounting and reporting standards, and examinations of forecasted financial statements in connection with rate filings.
- (c) *Tax Fees.* Consists of fees billed for professional services rendered for tax compliance.

**Table of Contents**

- (d) *All Other Fees.* Consists of other fees billed to Integrys Energy Group and its subsidiaries for products and services other than the services reported above. These other services primarily consist of training and subscription services. These services have been deemed to be permissible non-attest services and pre-approval was obtained from the audit committee.

In considering the nature of the services provided by the independent registered public accounting firm, the audit committee determined that such services are compatible with the provision of independent audit services. The audit committee discussed these services with the independent registered public accounting firm and Integrys Energy Group's management and determined that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as those of the American Institute of Certified Public Accountants. The audit committee has approved in advance 100% of the services described in the table above under *Audit Fees*, *Audit Related Fees*, *Tax Fees*, and *All Other Fees* in accordance with its pre-approval policy.

***Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm***

Consistent with SEC policies regarding auditor independence, the audit committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the audit committee has established a policy regarding the pre-approval of all audit and permissible non-audit services provided by the independent registered public accounting firm.

The audit committee will annually pre-approve a list of select services and a maximum fee per engagement for these services that would not require management to obtain specific approval from the committee on an individual basis. Other services (not on the pre-approved list or individual engagements for services on the pre-approved list that exceed the dollar limit) would require additional approval of the audit committee. If pre-approval is necessary between audit committee meetings, the audit committee chair or his designated alternate may provide approval. The audit committee may specifically delegate its pre-approval authority to the chair and any audit committee member designated as an alternate. Approvals provided by any member to whom authority is delegated must be presented to the full audit committee at its next scheduled meeting.

Integrys Energy Group's external auditors are absolutely prohibited from performing certain non-audit services, including:

Bookkeeping or other services related to the accounting records or financial statements;

Financial information systems design and implementation;

Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

Actuarial services;

Internal audit outsourcing services;

Management functions or human resources;

Broker-dealer, investment advisor or investment banking services;

Legal and expert services unrelated to the audit; and

## Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Other services the Public Company Accounting Oversight Board chooses to prohibit.

In addition, Integrys Energy Group has a written policy addressing the hiring of current or former employees of the independent registered public accounting firm. This policy restricts the hiring of current or former employees of the independent registered public accounting firm in certain situations. The policy also requires consultation with the Corporate Controller, legal counsel and the independent registered public accounting firm to ensure compliance with SEC rules. Pursuant to the policy, the Chief Financial Officer must approve any offer of employment.



## **Table of Contents**

### **Compensation Committee**

On December 31, 2011, the compensation committee consisted of five independent directors as follows: William J. Brodsky, Albert J. Budney, Jr., Kathryn M. Hasselblad-Pascale, John W. Higgins Chair, and Paul W. Jones. Each individual met the independence requirements as defined in the New York Stock Exchange listing standards.

The compensation committee evaluates the performance of the CEO, defines and establishes executive compensation strategy for Integrys Energy Group and recommends to the board of directors compensation, bonuses and benefits for the CEO, executive officers and certain other officers as determined from time to time. A written charter defining the responsibilities of the compensation committee has been adopted.

### **Environmental Committee**

On December 31, 2011, the environmental committee consisted of four independent directors as follows: Albert J. Budney, Jr., Pastora San Juan Cafferty, Kathryn M. Hasselblad-Pascale Chair, and William F. Protz, Jr.

The environmental committee reviews the environmental strategy, performance and compliance plans of Integrys Energy Group and the related management systems that are used to ensure compliance with environmental regulations and stewardship. A written charter defining the responsibilities of the environmental committee has been adopted, which requires this committee to consist of at least three independent directors.

Effective in February 2012, this committee was renamed the environmental and safety committee and its charter was revised to reflect that the committee's scope also extends to the area of safety.

### **Financial Committee**

On December 31, 2011, the financial committee consisted of five independent directors as follows: Keith E. Bailey Chair, William J. Brodsky, Ellen Carnahan, Paul W. Jones, and Michael E. Lavin. The financial committee acts in an advisory and consulting capacity to management regarding capitalization, dividend and investment policies, and other financial matters. The financial committee also provides assistance to the board of directors relating to financing strategy, financial policies and the financial condition of Integrys Energy Group. A written charter defining the responsibilities of the financial committee has been adopted, which requires this committee to consist of at least three independent directors.

### **Governance Committee**

On December 31, 2011, the governance committee consisted of four independent directors as follows: Ellen Carnahan Chair, Michelle L. Collins, John W. Higgins, and William F. Protz, Jr. Each individual met the independence requirements as defined in the New York Stock Exchange listing standards.

The governance committee provides oversight on the broad range of issues surrounding composition, operation and compensation of the board of directors, identifying and recommending individuals qualified to become board members and recommending corporate governance guidelines for Integrys Energy Group to the board of directors. A written charter defining the responsibilities of the governance committee has been adopted.

The governance committee will consider individuals recommended by shareholders for nomination as a director. Recommendations for consideration by the governance committee should be sent to Integrys Energy Group, Inc., Attention: Secretary, 130 East Randolph Street, Chicago, Illinois 60601, together with appropriate biographical information concerning each proposed nominee. As provided in our by-laws, any proposed nominees and appropriate biographical information must be submitted to

## **Table of Contents**

the Secretary between January 10, 2013, and February 9, 2013, for consideration at our 2013 annual meeting. For more detailed information regarding the process to submit an individual for consideration as a director nominee and the qualifications necessary to become a director of Integrys Energy Group, shareholders should review our by-laws, corporate governance guidelines and the governance committee charter.

In identifying potential nominees and determining which nominees to recommend to the board of directors, the governance committee may retain the services of a professional search firm or other third-party advisor. In connection with each vacancy, the governance committee will develop a specific set of characteristics for the vacant director position. The governance committee will look at nominees it identifies and any nominees identified by shareholders on an equal basis using these characteristics and the general criteria identified below.

The governance committee selects nominees on the basis of knowledge, experience, skills, expertise, diversity, personal and professional integrity, business judgment, time availability in light of other commitments, absence of conflicts of interest and such other relevant factors that the governance committee considers appropriate in the context of the needs of the board of directors at that time. At a minimum, each director nominee must have displayed the highest personal and professional ethics, integrity, values and sound business judgment. In considering the diversity of a candidate, the governance committee considers a variety of factors including but not limited to age, gender, ethnicity, experience and background. When considering nominees, the governance committee seeks to ensure that the board of directors as a whole possesses, and individual members possess at least one of, the following competencies: (1) accounting and finance, (2) business judgment, (3) management, (4) industry knowledge, (5) leadership, and (6) strategy and vision. In addition, the governance committee ensures that at least one director has the requisite experience and expertise to be designated as an audit committee financial expert. The governance committee looks at each nominee on a case-by-case basis regardless of who recommended the nominee. In screening director nominees, the governance committee will review potential conflicts of interest, including interlocking directorships and substantial business, civic, and social relationships with other members of the board of directors or management that could impair the prospective nominee's ability to act independently.

## **AVAILABLE CORPORATE GOVERNANCE INFORMATION**

Our articles of incorporation, by-laws, code of conduct, corporate governance guidelines, and charters of all current board committees are available on our website at [www.integrysgroup.com/investor](http://www.integrysgroup.com/investor), and can be accessed by selecting Corporate Governance, then Governance Documents.

**Table of Contents****OWNERSHIP OF VOTING SECURITIES****Beneficial Ownership**

The following table indicates the shares of our common stock and stock options beneficially owned by our directors, nominees and executive officers as of March 1, 2012. None of the persons listed beneficially owns shares of any other class of our equity securities. Each director or officer has sole voting and investment power with respect to the shares reported, unless otherwise noted. No voting or investment power exists related to the stock options reported until exercised.

Name and Title	Amount and Nature of Shares Beneficially Owned March 1, 2012		
	Aggregate Number of Shares Beneficially Owned (1)	Number of Shares Subject to Stock Options	Percent of Shares
Keith E. Bailey, Director	16,918	0	*
William J. Brodsky, Director	35,089	0	*
Albert J. Budney, Jr., Director	19,170 (2)	0	*
Pastora San Juan Cafferty, Director	18,951 (3)	0	*
Ellen Carnahan, Director	25,951	0	*
Michelle L. Collins, Director	2,581	0	*
Kathryn M. Hasselblad-Pascale, Director	29,289 (4)	0	*
John W. Higgins, Director	12,286	0	*
Paul W. Jones, Director	3,798	0	*
James L. Kemerling, Director	28,184	0	*
Holly K. Koeppel, Nominee	0	0	*
Michael E. Lavin, Director	14,993	0	*
William F. Protz, Jr., Director	202,635 (5)	0	*
Charles A. Schrock, Director, Chairman, President and Chief Executive Officer	286,367	212,434	*
Joseph P. O Leary, Senior Vice President and Chief Financial Officer	289,741	228,394	*
Lawrence T. Borgard, President and Chief Operating Officer Utilities	140,168	103,414	*
Phillip M. Mikulsky, Executive Vice President Business Performance and Shared Services	220,938	167,620	*
Mark A. Radtke, Executive Vice President and Chief Strategy Officer	203,384	158,759	*
All 23 directors and executive officers as a group	1,921,086 (6)	1,148,089	2.45%

\* Less than 1% of Integrys Energy Group outstanding shares of common stock.

(1) Aggregate number of shares beneficially owned includes:

- a) shares and share equivalents of common stock held in the Integrys Energy Group Employee Stock Ownership Plan and the Integrys Energy Group, Inc. Deferred Compensation Trust;
- b) stock options exercisable within 60 days of March 1, 2012;

- c) restricted stock units vested within 60 days of March 1, 2012; and
- d) performance shares paid out within 60 days of March 1, 2012.

**Table of Contents**

- (2) Includes 800 shares owned by spouse.
- (3) Includes 7,050 shares held in trust.
- (4) Includes 3,531 shares owned by spouse.
- (5) Includes 123,841 shares held in two trusts for which Mr. Protz is the trustee and in which his spouse is a 1/16<sup>th</sup> beneficiary. As trustee, Mr. Protz controls the voting of the shares and can direct the trust to sell or retain the shares. Also includes 45,031 shares owned by his spouse.
- (6) Includes 135,746 shares held in joint tenancy, by spouses or in trust.

The following table provides information as of December 31, 2011, regarding beneficial ownership by the only persons known to us to own more than 5% of our common stock. The beneficial ownership set forth below has been reported on Schedule 13G filings with the SEC by the beneficial owners.

Name and Address of Beneficial Owner	Voting Power		Investment Power		Aggregate	
	Sole	Shared	Sole	Shared	Number of Shares Beneficially Owned	Percent of Shares
BlackRock, Inc. 40 East 52 <sup>nd</sup> Street New York, NY 10022	7,170,912	0	7,170,912	0	7,170,912	9.16%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	108,226	0	4,166,433	108,226	4,274,659	5.46%
State Street Corporation One Lincoln Street Boston, MA 02111	0	4,271,924	0	4,271,924	4,271,924	5.45%

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers, directors and persons who beneficially own more than 10% of our common stock to file reports of changes in ownership of our common stock with the SEC within 2 business days following such change. We have reviewed statements of beneficial ownership furnished to us and written representations made by our executive officers and directors. Based solely on this review, we believe that our executive officers and directors timely filed all reports they were required to file under Section 16(a) in 2011 except for a Form 3 report for William J. Guc that was recently amended to report a small number of shares that had not been reported on his original Form 3.



**Table of Contents****Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2011, regarding total shares subject to outstanding stock options and rights and total additional shares available for issuance under our existing equity compensation plans.

<b>Plan Type</b>	<b>Number of Securities to be Issued  Upon Exercise of Outstanding Options, Warrants, and Rights (a)</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a))  (c)</b>
Equity Compensation Plans Approved by Security Holders	3,773,515 (1)	\$48.09	2,956,858
Equity Compensation Plans Not Approved by Security Holders	Not Applicable	Not Applicable	Not Applicable
<b>Total</b>	<b>3,773,515</b>	<b>\$48.09</b>	<b>2,956,858</b>

(1) Includes 322,163 target performance shares and 497,722 restricted stock units under the Integrys Energy Group, Inc. 2010 Omnibus Incentive Plan that are not taken into account in calculating the weighted average exercise price reflected in column (b). As of March 1, 2012, there were 3,188,297 stock options outstanding for Integrys Energy Group common stock (with a weighted-average exercise price of \$48.60 and weighted average remaining life of 6.14 years). In addition, as of March 1, 2012, there were 299,411 target performance share awards outstanding and 491,266 shares issuable upon vesting of all outstanding restricted stock units. As of March 1, 2012, approximately 2,432,066 shares remain available for issuance under the Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan, all of which could be granted as awards of stock options, stock appreciation rights, performance stock rights, restricted stock or other stock-based awards. The Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan is the only existing plan under which future grants may be made. The Integrys Energy Group, Inc. Deferred Compensation Plan is not included in the Equity Compensation Plan table above because this plan is a noncompensatory plan under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 Stock Compensation.

**Table of Contents**

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

We are providing a thorough discussion and analysis of our executive compensation program to our shareholders so that they will continue to have confidence in the integrity and design of our executive compensation program. As stated on page 13 in this proxy statement, our shareholders are being asked to approve a non-binding advisory resolution related to our executive compensation program. We encourage our shareholders to review the summary of our executive compensation program on page 13 that accompanies the advisory vote item. In addition, the discussion below and the executive compensation tables that follow provide more detailed information related to our executive compensation program.

As the summary referred to above concludes, we believe that our executive compensation program appropriately aligns pay with performance and plays a key role in achieving our business goals and creating shareholder value as well as supporting our values and beliefs.

All important aspects of our executive compensation program are reviewed below, including our overall compensation philosophy, pay for performance, and how our board of directors' compensation committee (which is comprised of independent directors) establishes and administers our executive compensation program. Our discussion and analysis focuses on each of the key components of our executive compensation program for the following named executive officers:

Charles A. Schrock, Chairman, President and Chief Executive Officer (CEO)

Joseph P. O'Leary, Senior Vice President and Chief Financial Officer (CFO)

Lawrence T. Borgard, President and Chief Operating Officer - Utilities

Phillip M. Mikulsky, Executive Vice President - Business Performance and Shared Services

Mark A. Radtke, Executive Vice President and Chief Strategy Officer

**Compensation Philosophy and Objectives**

In designing and administering the company's executive compensation program, the compensation committee is guided by an overall philosophy that emphasizes pay for performance and includes the following key objectives:

Reward executive performance consistent with our objectives, including operational effectiveness and financial results, which in turn should create value for our shareholders and reduce the need for, or the size of, rate increases for our utility customers;

Align executive efforts with our core values of integrity, innovation, safety, collaboration, respect for employees, service to customers, value creation for our shareholders and support for the communities we serve;

Attract, retain, motivate and develop a highly qualified executive staff;



## Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Provide a mix of fixed and variable pay, as well as a mix of short-term and long-term incentives to appropriately balance executive focus on short-term and long-term goals and avoid excessive risk-taking; and

Provide a mechanism for executives to have a stake in the company through stock ownership.

These objectives are embedded in the design of our executive compensation program in a way that we believe rewards performance, reinforces the right behaviors, and contributes to short-term and long-term business results. They also help us attract and retain highly qualified executives who are committed to the long-term success of the company and value creation for our shareholders.

**Table of Contents**

We implement our executive compensation philosophy through the following programs:

<b>Compensation</b>	<b>Program</b>	<b>Objectives Achieved</b>	<b>Fiscal 2011 Actions</b>
Annual Cash Compensation	Base Salary	Market-Competitive Compensation (targeted at 50 <sup>th</sup> percentile) to Attract Highly Qualified Executives	3% general wage increase for named executive officers (NEOs) other than Mr. Schrock who received a 3.6% increase, and Mr. Borgard who received a 10% increase, to bring base pay closer to market median.
	Short-Term Incentive Plan with goals based on:	Reward for Company Performance	Financial metric derived from earnings per share instead of consolidated net income.
	Financial metrics such as Diluted Earnings Per Share (EPS) Adjusted 70% weighting	Market-Competitive Compensation to Attract Highly Qualified Executives	Target annual incentive opportunity unchanged for all NEOs other than Mr. Radtke, whose target annual incentive opportunity was raised from 60% to 65% to recognize his contributions to the Company's success.
	Nonfinancial metrics such as safety, customer satisfaction and environmental impact 30% weighting	Shareholder Alignment	
Long-Term Incentive Compensation	Long-Term Incentive Plan with three award types:	Reward for Company Performance	Long-term incentive opportunity unchanged for all NEOs.
	Performance Shares tied to Total Shareholder Return 60% weighting	Market-Competitive Compensation to Attract Highly Qualified Executives	
	Stock Options 20% weighting	Retention	
Benefits	Restricted Stock Units 20% weighting	Shareholder Alignment	
	Retirement/Health, Welfare and Other Benefits	Market-Competitive Compensation to Attract Highly Qualified Executives	Unchanged from prior year.
		Retention	

In addition to these compensation programs, we provide change in control agreements for selected executive officers. These agreements have double triggers, which provide executive officers compensation if there is a change in control and the executive officer is either terminated without cause or the executive leaves for good reason, as defined in the agreements. These agreements help us to attract and retain talented executives that actively seek to maximize shareholder value, even if it means pursuing a transaction that might result in their termination.

**Table of Contents**

**Overview of 2011 Business Results and Performance-Based Compensation**

Although business conditions in 2011 were still challenging, overall we saw improved business results for 2011. Following the 2010 year, in which most of our executives received only a 2% increase in base pay due to difficult business conditions, our compensation committee approved base pay increases for 2011 in amounts ranging from 3% to 10% to ensure base pay was closer to market median.

Most of the short-term incentive compensation for our named executive officers is tied to financial performance with 70% of the incentive tied to the Diluted EPS Adjusted measure for all of our named executive officers. As reflected below, the Diluted EPS Adjusted measure was below-target and resulted in a below target payout for that portion of the award:

Overall, our performance on nonfinancial measures, which comprises 30% of the short-term incentive target for all named executive officers, was less favorable than previous years with results between 0% and 100%. Additional information regarding our nonfinancial measures can be found below under the heading Key Components of our Executive Compensation Program Short-Term Incentive Compensation.

For the February 2009 performance share grant (performance for the three-year period ending December 31, 2011), which represents 60% of the target long-term incentive opportunity for our named executive officers, our Total Shareholder Return (TSR) ranked at the 37<sup>th</sup> percentile relative to the performance share peer group. As a result, our named executive officers earned 74% of the target award under the terms of the plan related to the 2009-2011 performance period.

Executive short-term incentive payouts have tracked near target performance during the three years preceding 2011, with average payout percentages based on targeted incentive for our named executive officers of 71.92% in 2008, 108.05% in 2009, and 85.97% in 2010. Unlike the relatively steady performance under the short-term incentive plan, due to relative TSR performance, performance share payouts for the multi-year cycles ending in 2008, 2009, and 2010 ranged from 0% to 124% of target payouts.

## **Table of Contents**

### **Outlook for our 2012 Executive Compensation Program**

We expect that 2012 will be a year where we will need to continue to work diligently to achieve our business goals, and we have worked to ensure that our executive compensation program remains consistent with our compensation philosophy and is structured to help us achieve our goals. In developing compensation plans for fiscal year 2012, the compensation committee considered the positive say on pay vote of our shareholders at our 2011 annual meeting of shareholders. Taking into consideration the results of the shareholder vote, and as we further describe in this Compensation Discussion and Analysis, the compensation committee has kept in place for 2012 similar executive compensation program components as were disclosed in our 2011 proxy statement. In addition to retaining a similar executive compensation program for 2012, the compensation committee and our board of directors approved the implementation of a clawback policy applicable to all incentive compensation earned in 2012 and after. Pursuant to this policy, our board of directors may seek reimbursement of incentive compensation paid to our named executive officers in certain situations including material restatements of our financial statements or instances of willful misconduct or fraud that cause harm to the company. This policy was implemented in the first quarter of 2012 and will be refined as appropriate following the release of final regulations by the SEC.

The compensation committee will continue to regularly review our executive compensation program throughout 2012, including monitoring rule-making developments related to the 2010 Dodd-Frank financial reform legislation.

### **Role of the Compensation Committee and Advisors to the Committee**

#### ***Purpose and Membership in 2011***

The compensation committee of the board of directors has the authority to set policy for executive compensation, and to establish and administer the executive compensation program for the company and its subsidiaries consistent with our compensation philosophy. For the majority of 2011, the compensation committee consisted of:

William J. Brodsky

Albert J. Budney

Kathryn M. Hasselblad-Pascale

John W. Higgins, Chair

Mr. Higgins was appointed Chair of the compensation committee in May 2011. Prior to that, Richard A. Bemis had been the Chair. Mr. Bemis retired from the board of directors in May 2011 and Ms. Hasselblad-Pascale was appointed to the compensation committee at that time. Effective December 15, 2011, the board of directors also appointed Paul W. Jones as a fifth member of the compensation committee.

#### ***Decision-Making Process***

The compensation committee generally adheres to objective criteria and a structured method of determining compensation, with discretionary decision-making in limited circumstances. Compensation decisions made by the compensation committee rely on market trends and performance at the corporate, business unit and individual levels. The compensation committee also may review the compensation history of the named executive officers, but it is only a minor factor in setting future compensation for our named executive officers. The compensation committee reserves the right to modify or discontinue elements of the executive compensation program, and to revise compensation levels after considering qualitative and quantitative facts and circumstances surrounding actual or projected financial results, individual performance, market trends, as well as its view of the appropriate balance between base salary, annual short-term incentive compensation, long-term incentive compensation and other benefits.

## **Table of Contents**

### ***Use of Independent Compensation Consultant***

The compensation committee engages an independent compensation consultant to evaluate executive compensation, to discuss general compensation trends, to provide competitive market data and to assist our human resources department and our CEO in developing recommendations to present to the compensation committee. The compensation consultant provides the compensation committee with advice, consultation and market information on a regular basis throughout the year. For 2011, the compensation committee engaged Exequity LLP as its independent executive compensation consultant. Exequity does not provide any other consulting services to the company.

Although the compensation committee's compensation consultant provides a review of market data for consideration by the compensation committee in setting senior executive compensation levels and programs (including compensation levels and programs for our named executive officers), the compensation committee's compensation consultant generally does not make specific recommendations on individual compensation amounts for our named executive officers, nor does the consultant determine the amount or form of executive compensation. Decisions on senior executive compensation levels and programs are recommended and/or made by the compensation committee, with approval as appropriate from the board of directors. The compensation committee and the full board of directors approve the use of all equity grants for executives as well as non-executives.

In performing its duties, the committee's compensation consultant is instructed to perform independent research based on competitive market data of similarly sized companies in the utility/energy services industry and in the broader general industry, using both proprietary compensation surveys and the consultant's knowledge of industry practices. For 2011, the compensation committee's compensation consultant assisted the compensation committee by providing a competitive compensation analysis of the company's executive positions, an analysis of pay for performance, an overview of compensation trends and proposed legislation, a review of peer company executive benefits and perquisites, and reviews of various incentive plan practices.

### ***Management's Advisory Role***

While our CEO has the ability to meet with the compensation committee's compensation consultant on an individual basis, he would only do this in situations where he felt there was a valid business reason, and the compensation committee would be made aware of the meeting. Only the compensation committee has the authority to continue or discontinue its relationship with the compensation consultant. In this regard, the compensation committee maintains frequent contact with the compensation consultant and regularly reviews the independence of and the performance of the consultant.

During meetings of the compensation committee, the CEO and certain other officers may be present when executive compensation considerations are discussed by the compensation committee. The Vice President - Human Resources and the CEO typically provide information and recommendations to the compensation committee for their consideration. Specifically, the CEO serves in an advisory role to the compensation committee regarding executive compensation for the named executive officers, other than himself, including with respect to executive performance (as discussed below in this section under the heading "Executive Performance"). In addition, the CEO participates in discussions on short-term incentive measures and performance levels for the company as a whole and for the named executive officers as a group, some of which may apply to the CEO's short-term compensation. Although the CEO's recommendations are given significant weight by the compensation committee, the compensation committee remains responsible for all decisions on compensation levels for the named executive officers and on our executive compensation policies and programs. In fulfilling its responsibilities related to executive compensation, the compensation committee meets in executive session without management at each of its meetings and also meets in executive session at least annually with the compensation consultant.

## **Table of Contents**

The CEO provides the compensation committee with an assessment of his own performance during the year. However, the CEO does not make recommendations with regard to his own pay and is not present when his own compensation is considered. Rather, such discussions occur in executive session with the compensation committee's compensation consultant present and no management team members present.

In the CEO's advisory role to the compensation committee, he does not have the authority to call a meeting of the compensation committee.

### **Setting Compensation Levels**

#### ***Benchmarking***

Our objective is to use competitive market data to establish the total compensation target at or near the median level of a utility/energy peer group. This competitive market data is used to determine the compensation levels for the named executive officers and the key elements of their compensation. The compensation committee generally adheres to objective criteria and a structured method of determining compensation. To determine base salaries and equity grants for the named executive officers, the compensation committee relies primarily on median competitive market data. Occasionally the compensation committee may make minor adjustments to a named executive officer's compensation based on individual performance as discussed below in this section under the heading *Executive Performance*. To the extent that base salaries and equity grants vary by professional role in the marketplace, as demonstrated by the competitive market data reviewed and provided by the independent compensation consultant, the base salaries and equity grants of the named executive officers will vary, sometimes significantly.

For example, consistent with the level of responsibility and the executive compensation practices of the companies in the market data discussed below, CEOs typically earned significantly more in base salary, annual incentive and long-term incentive equity grants than other named executive officers. This resulted in our CEO being eligible to receive a higher percentage of base salary in annual and long-term incentives than our other named executive officers.

The compensation committee uses information from its compensation survey and performance peer groups, as well as other market data that it deems appropriate to ensure that our executive compensation program will achieve its desired goals. For 2011, the compensation committee used a peer group developed by its independent outside compensation consultant to review competitive market data. The peer group is comprised of the following companies, which on average correspond with our size and scope in the utility/energy services industry:

AGL Resources Inc.	Northeast Utilities System
Allegheny Energy, Inc.	NSTAR
Alliant Energy Corporation	NV Energy, Inc.
Ameren Corporation	OGE Energy Corp.
Atmos Energy Corporation	Pepco Holdings, Inc.
Avista Corporation	Pinnacle West Capital Corporation
CenterPoint Energy, Inc.	PNM Resources, Inc.
CMS Energy Corporation	Portland General Electric Company
DPL Inc.	PPL Corporation
DTE Energy Company	Progress Energy, Inc.
Energen Corporation	SCANA Corporation
EQT Corporation	TECO Energy, Inc.
Hawaiian Electric Industries, Inc.	Westar Energy, Inc.
MDU Resources Group, Inc.	Wisconsin Energy Corporation
Nicor, Inc.	Xcel Energy Inc.

## **Table of Contents**

With respect to the peer group, we generally review only aggregate data (i.e., 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles) and do not review data specific to an individual company.

We intend to continue our strategy of compensating our named executive officers at market competitive levels, with an opportunity to earn above-median compensation for above-market performance (or, in the alternative, to earn less than market for below-market performance), through programs that emphasize performance-based incentive compensation in the form of cash and equity-based awards. To that end, total executive compensation for our named executive officers is tied directly to performance and is structured to ensure that, due to the nature of our business, executive focus is appropriately balanced between short-term and long-term performance, so that shareholder value can be maximized with appropriate focus on risk management.

Based on our analysis, we believe that the total compensation paid or awarded to our named executive officers during 2011 was consistent with our financial and operational performance and the individual performance of each of our named executive officers. We also believe that the total compensation was reasonable and is consistent with our compensation philosophies as described above.

### ***Executive Performance***

The compensation committee reviews each named executive officer's individual performance, other than the CEO's, with the CEO in setting the named executive officer's compensation levels. Short-term incentive payouts are typically based on company performance results, and not on individual performance. For those compensation components where individual performance is a consideration, individual performance is typically considered in a general way and may result in minor adjustments to compensation levels.

As part of assessing named executive officers' individual performance each year, the compensation committee considers information provided by the CEO regarding the named executive officers (other than himself) throughout the year. The primary assessment of named executive officer performance normally occurs during an executive session at the compensation committee's December meeting. During this session, the CEO reviews the individual performance of the other named executive officers. Our CEO summarizes information to be included in the annual performance review that is provided to each named executive officer. The annual performance review for each named executive officer, which in most cases is prepared by our CEO, reflects an assessment of how well the named executive officer fulfilled his or her executive responsibilities, achieved assigned goals and demonstrated core competencies. Core competencies may include, but are not necessarily limited to, building strategic partnerships, leadership, communication, change management, managing diversity, planning, organizing, strategic business acumen, analytical agility, risk management, creativity and innovation, decision-making, and strategic planning and vision. In addition to summarizing the individual performance of a named executive officer reflected in the officer's annual performance review, our CEO also reviews with the compensation committee, as appropriate, the named executive officer's contributions to (1) our financial and operational results, (2) achievement of our customer service goals, (3) advancing our core values, (4) developing leaders, and (5) succession planning.

The compensation committee in conjunction with the Lead Independent Director also reviews and discusses the CEO's annual performance in executive session at its December meeting, and periodically throughout the year as needed. During these discussions, the CEO is not present. The compensation committee's determination as to the CEO's individual performance is reviewed by the full board of directors. The CEO is also excused from the discussion that the board of directors has regarding the CEO's performance, although the board of directors does review its conclusions with the CEO.

**Table of Contents**

***Consideration of Risks Associated with Our Executive Compensation Program***

In formulating and evaluating material elements of compensation available to our named executive officers, the compensation committee takes into consideration whether any such programs may encourage our named executive officers to take excessive risks. As part of these considerations and consistent with its compensation philosophy, the compensation committee is determined to formulate annual and long-term incentive compensation programs that do not encourage excessive risk taking as an inherent part of the applicable plan design. The compensation committee believes that our current annual and long-term incentive programs discourage excessive risk taking by our named executive officers, in that:

Significant compensation elements under both plans include stock-based compensation with multiple-year vesting periods along with stock-ownership guidelines;

The financial metrics utilized are earnings per share-based focusing on continuing business operations with results adjusted from Generally Accepted Accounting Principles in accordance with the plan design, and are widely utilized measurements of shareholder value;

No changes to short-term or long-term incentive program financial goals are made after the initial establishment of such elements by the compensation committee;

The nonfinancial metrics utilized focus on operational results tied to delivering timely and quality services to customers in a safe and environmentally friendly way;

Excessive compensation payment opportunities are avoided due to plan design and limitations on payout levels;

The annual incentive is based on multiple measures, both financial and nonfinancial;

The committee approves both the plans and the payouts under the plans; and

Salaries are competitive with market and are a basic element of overall compensation.

***Consideration of Tax and Accounting Matters***

Our compensation committee has considered the implications of Section 162(m) of the Internal Revenue Code in making decisions concerning compensation design and administration. Our compensation committee views tax deductibility as an important consideration and intends to maintain deductibility wherever possible, but also believes that our business needs should be the overriding factor of compensation design. Therefore, the compensation committee believes it is important to maintain flexibility and has not adopted a policy requiring that specific programs meet the requirements of performance-based compensation under Section 162(m). Our compensation committee also considers tax implications for executives and structures its compensation programs to comply with Section 409A of the Internal Revenue Code. Accounting and cost implications of compensation programs are considered in program design; however, the main factor is alignment with our business needs.



**Table of Contents**

**Key Components of our Executive Compensation Program**

The key components of our executive compensation program are base salary, annual short-term incentive compensation, long-term incentive compensation (restricted stock units, performance shares and nonqualified stock options) and other benefits. In this mix of compensation, at-risk compensation is a significant portion of total compensation. Base salary can be less than one-half of overall compensation received by our named executive officers, as shown in the chart below. Short-term and long-term incentives make up the remainder of direct compensation and, except for restricted stock units, are performance-based, with a greater weighting on long-term incentives. We are placing a greater weighting on long-term incentives because we believe that this most effectively encourages our executive officers to work to generate long-term shareholder value. We also believe that this weighting better aligns the interests of our executive officers with our long-term interests, by discouraging undue risk-taking, promoting ownership in the company and encouraging retention.

Targeted Compensation Components

All matters discussed below pertain to our executive compensation program that was in place during 2011. For a discussion of major changes made to the executive compensation program for 2012, please see the discussion above under the heading Outlook for our 2012 Executive Compensation Program.

***Base Salary***

Base salary is used to provide cash income to executives to compensate them for services rendered during the fiscal year. At least annually, the compensation committee's compensation consultant reviews competitive market benchmark data with the compensation committee. Market comparisons are based on the median (50<sup>th</sup> percentile) base salary for substantially equivalent positions of companies in the peer group, depending on the position. Salary increases for 2011 were determined by the compensation committee based on recommendations of the CEO, which may include overall company performance and individual performance of the executive as discussed above, and the compensation committee's evaluation of current market data as provided by the independent executive compensation consultant hired by the compensation committee. In December 2010, the compensation committee granted base salary increases for 2011 for the named executive officers that ranged from 3% to 10% to bring base pay closer to market median and averaged approximately 4.5%. Base salaries for 2011 for the named executive officers were competitive with the market median at the time that the base salaries were approved. The goal of setting base salary at or near market median levels allows the company to be competitive in the marketplace.

**Table of Contents****Short-Term Incentive Compensation**

All of our named executive officers participated in the Integrys 2011 Executive Incentive Plan (referred to as the incentive plan). The purpose of the incentive plan is to:

Focus executive employees on assisting the company in achieving objectives key to its success;

Recognize the performance of key employees in achieving our financial and operating objectives; and

Provide compensation opportunities that closely reflect the pay levels at companies in the peer group.

Annual incentive payments under the incentive plan are based on financial and nonfinancial performance goals. The overall target payout for the named executive officers is established based on the peer group market median (50<sup>th</sup> percentile). We consider stretch performance objectives in determining performance measures and payout levels. Using stretch performance objectives results in most performance measures being increased from the prior year levels to accentuate continuous improvement in year-over-year objectives. These levels provide a reduced payout for partially meeting objectives (above threshold performance levels) and a strong incentive, generally two times target level, for superior performance.

Our incentive plan provided short-term incentive compensation for our named executive officers based on the attainment of the performance goals and weightings described below:

	Schrock	O Leary	Borgard	Mikulsky	Radtke
<b>Financial Goals</b>					
Diluted EPS Adjusted (1)	70%	70%	70%	70%	70%
<b>Nonfinancial Goals</b>					
Environmental Impact (2)	10%	5%	10%	5%	10%
Customer Satisfaction Utility Customers (3)	10%	5%	10%	5%	10%
Customer Satisfaction Business Partners (4)	N/A	10%	N/A	10%	N/A
Safety (5)	10%	10%	10%	10%	10%
N/A Not applicable					

- (1) Performance is measured based on Integrys Energy Group diluted earnings per share, which is based on forecasted net income available for common shareholders used to establish investor guidance, and adjusted on an after-tax basis.
- (2) Performance is measured based on the implementation of projects and activities in 2011 that reduced annual emissions of carbon dioxide (CO<sub>2</sub>) and other greenhouse gases.
- (3) Performance is measured based on customer satisfaction through surveys performed by an outside vendor as compared to survey results of other regional benchmark energy suppliers.
- (4) Performance is measured based on internal customer satisfaction at our Integrys Business Support, LLC subsidiary through biannual partner surveys of internal company business partners as compared to a target score.

## Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

- (5) Performance is measured based on Occupational Safety and Health Administration (OSHA) recordable incident rates determined on an Integrys Energy Group consolidated basis, except for Mr. Borgard. Mr. Borgard's measure is based on OSHA recordable incident rates at only our regulated utility subsidiaries.
- Under the incentive plan, no payouts for financial measure results are made to any of our named executive officers if the Diluted EPS Adjusted threshold level is not attained. In addition, incentive

**Table of Contents**

plan payouts related to nonfinancial measures are reduced by 50% if the Diluted EPS Adjusted threshold level is not attained.

Threshold, target and superior performance levels for each goal, as well as the weighting of each measure, are recommended by the human resources department, CFO and CEO (excluding his own) based on historical results, anticipated business conditions, and goals and objectives of the company. After considering these recommendations, as well as the input of the independent compensation consultant, the compensation committee determines the final levels. For each of the short-term incentive measures, the compensation committee sets specific performance levels early in the plan year and factors in stretch performance objectives in developing the performance measures. Threshold levels represent minimally acceptable performance, target levels represent performance that should typically be achievable in any given year, and superior levels represent stellar performance beyond that typically achievable in any given year.

Provided below are the specific payout levels established for 2011 for each of our named executive officers for the incentive plan:

Named Executive Officer	Payout Levels (as a Percent of Actual Paid Base Salary)		
	Threshold	Target	Superior
Charles A. Schrock	0	100.0	200.0
Joseph P. O'Leary	0	65.0	130.0
Lawrence T. Borgard	0	70.0	140.0
Phillip M. Mikulsky	0	60.0	120.0
Mark A. Radtke	0	65.0	130.0

Provided below are threshold, target and superior levels, as well as information related to actual results achieved for 2011 and related payout percentages for our financial measures:

Financial Measure	Threshold	Target	Superior	2011 Actual Results Payout	
				Amount	% of Target
Diluted EPS Adjusted	\$ 3.31	\$ 3.58	\$ 3.84	\$ 3.53	81.5%

In making the determination as to the payout related to the financial measure, as provided for in the incentive plan, the compensation committee concluded that certain adjustments to the Diluted EPS Adjusted measure were appropriate because the events were non-recurring in nature and the accounting effects of these items were not indicative of the performance of our named executive officers during 2011. These adjustments included adjustments related to a tax law change and health care reform, as well as adjustments related to Integrys Energy Group's nonregulated operations, including mark-to-market adjustments and a plant impairment. The total adjustment to the Diluted EPS Adjusted result was \$0.51, with the largest adjustment resulting from a noncash charge related to mark-to-market adjustments at Integrys Energy Services, Inc. All adjustments approved by the compensation committee were consistent with the types of adjustments allowed under the incentive plan.

The 2011 nonfinancial measures and performance range results are provided in the following table:

Nonfinancial Measures	Range of Performance Result
Environmental Impact	Below Threshold
Customer Satisfaction Utility Customers	Below Threshold
Customer Satisfaction Business Partners	At Target
Safety	Between Threshold and Target

**Table of Contents**

The amount of total payouts awarded under the incentive plan for our named executive officers for 2011, along with payout percentages as a percent of targets and individual base salary earnings are summarized in the following table:

	<b>Schrock</b>	<b>O Leary</b>	<b>Borgard</b>	<b>Mikulsky</b>	<b>Radtke</b>
Amount of Payout	\$ 550,542	\$ 234,224	\$ 201,720	\$ 182,575	\$ 157,428
Payout as % of Target	63.6%	73.6%	60.6%	73.6%	63.6%
Payout as % of Base Salary	63.6%	47.9%	42.4%	44.2%	41.4%

We believe it is important to establish performance targets and incentives that align executive compensation with financial and operational performance, promote value-driven decision making by executives and provide total compensation levels that are competitive in the market. Payout is made on any individual measure with results above threshold (provided that no payout for any financial measure is made unless the Diluted EPS Adjusted threshold is reached). Company performance and the use of stretch performance objectives have had an effect on payout levels, with payouts for our named executive officers ranging from 60.58% to 125.0% of target and from 41.35% to 125.0% of actual paid base salary during the 2009 through 2011 plan performance periods.

**Long-Term Incentive Compensation**

We believe that equity-based compensation ensures that our executives have a continuing stake in the long-term success of the company and also serves to discourage undue risk-taking for only short-term gain. In a manner consistent with our overall compensation philosophy, we have adopted certain long-term compensation plans that utilize various equity-based compensation awards, including performance shares, restricted stock units and nonqualified stock options.

For long-term incentive awards granted to our named executive officers in February 2011, long-term incentive compensation was comprised of 20% restricted stock units, 60% performance share awards and 20% nonqualified stock options. This mix is intended to provide balance between performance oriented long-term incentive vehicles (performance shares and stock options) and retention-oriented long-term incentive vehicles (restricted stock units). While we also consider the mix of long-term incentives provided by our benchmark companies, we primarily structure the long-term incentive mix based on compensation objectives of the company. The amount of total long-term incentive received by each named executive officer is determined by the compensation committee and recommended to the board of directors, which relies on the market median data reviewed by the compensation committee (the compensation consultant provides the market median data to the compensation committee based on the peer group). In addition, the performance of each named executive officer may be considered, as discussed above.

The long-term incentive compensation granted for 2011 as a percent of annualized base salary for each named executive officer was 225% for Charles A. Schrock, 160% for Joseph P. O Leary, 175% for Lawrence T. Borgard, 125% for Phillip M. Mikulsky, and 133% for Mark A. Radtke.

**Performance Shares**

We believe that the granting of Integrys performance shares encourages our named executive officers to direct their efforts in a manner consistent with the optimization of total shareholder return (TSR), and to create shareholder value that is superior to the company's peers.

Performance share awards are based on TSR over a three-year period. During the three-year period, there are no dividends paid to participants nor do participants have voting rights over the shares subject to the award. At the end of the three-year period, the compensation committee makes a relative comparison of the company's TSR to the TSR of the performance share peer group selected by the compensation committee for the three-year period, and determines the number (if any) of

## **Table of Contents**

performance share awards to issue. In determining the number of performance shares that are paid out, the compensation committee compares our TSR against a performance peer group of approximately 70 energy/utility companies (referred to as the performance share peer group). At the end of a performance period, the compensation committee makes a recommendation to the board of directors regarding the amount of payout based on this method of measuring performance.

The number of shares to be provided at target is based on market median levels of incentive compensation, competitiveness of the total compensation package and individual performance. A new three-year performance period starts annually. If our TSR is at the 50<sup>th</sup> percentile (target level) of the performance share peer group, as determined by the compensation committee, a payout of 100% of target award is made. If our TSR is at the 25<sup>th</sup> percentile (threshold level), a payout of 50% of the target award is made. If our TSR is below the 25<sup>th</sup> percentile, no payouts are made. If our TSR is at the 90<sup>th</sup> percentile (superior level), a payout of 200% of the target award is made. If our TSR results are in between the threshold, target and superior levels, payouts are determined based on interpolation. For the February 2009 performance share grant (performance period ended on December 31, 2011), our TSR ranked at the 37<sup>th</sup> percentile, relative to the performance share peer group. As a result, our named executive officers earned 74% of the target award under the terms of the plan related to the 2009-2011 performance period. Final approval of grants is made by the board of directors after considering the recommendation of the compensation committee.

### *Restricted Stock Units*

We believe that the granting of restricted stock units serves to increase retention of executives, establishes an incentive to continually improve TSR, and provides another alternative for executives to increase stock ownership in our company, all of which should help increase shareholder value. The number of restricted stock units granted is based on market median levels of incentive compensation, competitiveness of the total compensation package, individual performance, and the desired mix of long-term incentive awards. The number of restricted stock units granted represents 20% of the total long-term incentive opportunity for each named executive officer. The company's restricted stock units have a four-year vesting schedule (25% per year), and do not give the named executive officers voting rights until vested. With respect to the restricted stock units granted in 2011, dividends are deemed to be reinvested in additional shares of restricted stock units, which are released according to the vesting schedule. Final approval of grants is made by the board of directors after considering the recommendation of the compensation committee.

### *Nonqualified Stock Options*

We believe that the granting of company stock options serves to encourage the named executive officers to direct efforts that will ultimately lead to an increase in shareholder value. The number of stock options granted is based on market median levels of incentive compensation, competitiveness of the total compensation package, individual performance, and the desired mix of long-term incentive awards. The number of stock options granted represents 20% of the total long-term incentive opportunity for each named executive officer. Consistent with the plan document, option grants have strike prices equal to the closing market price of a share of common stock on the date the options are granted. One quarter of the options granted vest each year on the grant anniversary date. All options have a 10-year term from the date of grant. There are no dividends or voting rights associated with stock options. Final approval of grants is made by the board of directors after considering the recommendation of the compensation committee.

---

**Table of Contents**

***Other Benefits and Plans***

We have certain other benefits and plans which provide, or may provide, cash compensation and other benefits to our named executive officers. These benefits and plans include a nonqualified deferred compensation plan, a qualified pension plan, a nonqualified pension restoration and supplemental retirement plan, life insurance, perquisites and change in control agreements. The compensation committee considers all of these plans and benefits when reviewing total compensation of our named executive officers.

***Deferred Compensation Plan***

Our named executive officers may participate in the nonqualified Integrys Energy Group, Inc. Deferred Compensation Plan (referred to as the deferred compensation plan) with the approval of the compensation committee. This nonqualified benefit allows eligible executives to defer 1% to 80% of base salary, annual short-term incentive, and long-term incentive compensation (other than stock options) on a pre-tax (federal and state) basis. The deferred compensation plan also provides for a matching contribution credit for any reduction in the matching contribution the executive receives under the Employee Stock Ownership Plan (ESOP) due to the executive's election to defer base salary or annual short-term incentive compensation to the deferred compensation plan.

Several investment types are available to eligible executives, as listed below:

**Reserve Account A** This option is no longer available after 1995 for additional deferrals. Money previously deferred to Reserve Account A receives accrued interest based on the greater of 6.0% or our consolidated return on common equity, as calculated on April 1 and October 1 each year. This account is currently providing an above-market rate of return of 7.937%, which exceeds 120% of the applicable federal long-term rate of 3.55%. An executive may transfer amounts from Reserve Account A to another available investment option, but once transferred, the amounts cannot be allocated back to Reserve Account A.

**Reserve Account B** This option is no longer available for base compensation and annual incentive deferrals made after March 31, 2008. This account provides for an interest accrual equal to the greater of 6.0% or 70% of our consolidated return on common equity. This account is currently providing an above-market rate of annual return of 6.0%, which exceeds 120% of the adjusted applicable federal long-term rate of 3.55%. An executive may transfer amounts from Reserve Account B to another available investment option, but once transferred, the amounts cannot be allocated back to Reserve Account B.

**Mutual Fund Account** This option is available for base compensation and annual incentive deferrals and, effective April 1, 2008, performance share deferrals. These options generally provide the executive with the ability to elect the same investment funds provided by the Wisconsin Public Service Corporation 401(k) Plan.

**Locked Stock Unit Account** This is a company stock unit account that was available until April 1, 2008, for deferrals that an executive was not allowed to convert to other investment types. This includes pre-April 1, 2008, deferrals related to grants from long-term performance shares, pre-April 1, 2008, annual incentive award payouts with respect to which the executive received a 5% premium for amounts allocated to stock units, and the pre-2008 ESOP matching contribution credit to replace company contributions that would have normally been made to the ESOP except for the executive's deferrals to the deferred compensation plan. Deferrals into this account are not allowed to be converted to other investment types.

**Discretionary Stock Unit Account** This is a company stock unit account available for deferrals that may be transferred to or from this account from another available option, or vice versa.

Base compensation deferrals may be changed one time per year prior to the beginning of each calendar year. Deferrals of annual short-term or long-term incentive compensation must be made in

**Table of Contents**

accordance with rules prescribed by the compensation committee, which at a minimum require that the executive's election be in place at least six months prior to the last day of the incentive performance period. The rates of return on the investment accounts ranged from (12.65)% to 13.12% for the 12-month period ending December 31, 2011. More information regarding contributions, earnings and balances held by each of our named executive officers is presented in the Nonqualified Deferred Compensation Table for 2011.

*Qualified Pension Plan*

Our named executive officers are eligible to participate in the qualified Integrys Energy Group, Inc. Retirement Plan (referred to as the pension plan) upon completion of one year of service and 1,000 or more hours of work during that year. All of our named executive officers are eligible to participate in the pension plan. The pension plan requires three years of employment or the attainment of age 65 to be vested in the plan.

The pension income benefit under the pension plan is equal to the total service percent multiplied by final average pay. The pension income benefit consists of a lump sum benefit, which may be converted into an actuarially equivalent annuity with monthly payments. Final average pay is the average of the last 60 months or the 5 highest calendar years' compensation within the 10-year period immediately preceding the participant's termination of employment, whichever is greater, up to Internal Revenue Service (IRS) pay limits. Eligible compensation considered under the plan includes base salary, annual short-term incentive payout and bonuses. The total service percent for eligible service-based annual accruals varies from 9% to 15% per year (9% to 13% for employees hired after January 1, 2001), depending on the number of years of service. Participants actively employed on January 1, 2001, earned a pension transition benefit based on age and service, up to 115% of final average pay.

In addition, if an employee who was hired prior to January 1, 2001, terminates employment on or after attainment of age 55 (but prior to 65) and completion of five or more years of service, the plan provides for a monthly supplemental benefit equal to \$800 per month payable until age 65. For an employee hired on or after January 1, 2001, the pension supplement is available if the employee terminates employment on or after attainment of age 55 (but prior to 65) and completes 10 or more years of service, and consists of a monthly benefit payable until age 65 equal to \$40 times years of credited service to maximum of 20 years. If the pension income benefit is paid in a lump sum, the pension supplement is automatically converted into and paid at the same time as an actuarially equivalent lump sum.

Only service through December 31, 2012, and compensation through December 31, 2017, will be recognized in calculating benefits. Employees hired on or after January 1, 2008, are not eligible for the pension plan.

Provided below is the pension service credit for each of our named executive officers:

<b>Named Executive Officer</b>	<b>Annual Percentage Credit Earned in 2011</b>	<b>Accumulated Total Service Credits Earned as of December 31, 2011</b>
Charles A. Schrock	15%	499%
Joseph P. O'Leary	10%	97%
Lawrence T. Borgard	15%	395%
Phillip M. Mikulsky	15%	636%
Mark A. Radtke	15%	416%

The pension plan does not allow for granting of additional service credit not otherwise authorized under the plan terms. Provided in the Pension Benefits Table for 2011 below is a tabulation of the present value of the accumulated pension benefit for each of our named executive officers, using full years of credited service only.



**Table of Contents***Pension Restoration and Supplemental Retirement Plan*

Our named executive officers receive nonqualified pension restoration and supplemental retirement benefits under the nonqualified Integrys Energy Group, Inc. Pension Restoration and Supplemental Retirement Plan. In the ensuing discussion and in the Nonqualified Deferred Compensation Table for 2011 below, we refer to the pension restoration benefit portion of this plan as the pension restoration plan and we refer to the supplemental retirement benefit portion of this plan as the SERP.

Pension restoration benefits are based upon the difference between (1) the benefit the executive would have been entitled to under the pension plan if the maximum benefit limitation under IRS Section 415 and the compensation limitation under IRS Section 401(a)(17) did not apply, and if all base compensation and annual incentive amounts had been paid to the executive in cash rather than being deferred into the deferred compensation plan, and (2) the executive's actual benefit under the pension plan. The Nonqualified Deferred Compensation Table for 2011 below provides information on the deferrals into the pension restoration plan and earnings for each named executive officer.

Supplemental retirement benefits provide income replacement when taking into account other retirement benefits provided to the named executive officer and ensures that the named executive officer will receive 60% of final average pay (calculated to include both base salary and short-term incentive compensation payments over the last 36 months or the 3 preceding years, whichever is higher). To qualify for the full supplemental retirement benefit, the executive must have completed 15 years of service and retire/terminate after age 62. Reduced benefits are payable if the executive has attained age 55 and completed 10 years of service at retirement or termination.

The pension restoration and SERP benefits are designed to attract and retain key management employees who are important to the successful operation of the company. The Pension Benefits Table for 2011 below provides information regarding the present value of accumulated benefits under the pension restoration plan and the SERP for each named executive officer.

Beginning in 2008, we made the decision to move away from the use of defined benefit pension plans for all non-union employees, including executives, because of market trends. A 10-year transition period applies, which means that for new non-union employees starting work in 2008 and after, no qualified and nonqualified defined benefit pension plans will exist for future benefit accruals. These plans are being replaced with defined contribution plans.

*Life Insurance*

Our named executive officers are eligible for an enhanced life insurance benefit of up to 3 times their annual base salary, with a maximum benefit level (taking into account both employer-provided coverage and any supplemental coverage that the officer voluntarily purchases) of \$1,500,000. Accidental Death and Dismemberment (AD&D) coverage is also provided for these same named executive officers up to 3 times their annual base salary, subject to a separate \$1,500,000 maximum benefit level. The IRS requires that imputed income be calculated and recorded for company-paid life insurance in excess of \$50,000. In compliance with IRS regulations, imputed income is recorded to the extent that an executive's life insurance benefit exceeds this limit. Listed below is the life insurance coverage in place as of December 31, 2011, for each named executive officer:

<b>Named Executive Officer</b>	<b>Life Insurance Coverage (\$)</b>
Charles A. Schrock	1,500,000
Joseph P. O'Leary	650,000
Lawrence T. Borgard	1,448,000
Phillip M. Mikulsky	1,247,000
Mark A. Radtke	1,148,000

## **Table of Contents**

### *Perquisites*

Our named executive officers are provided with a modest level of personal benefits. These may include payments for executive physicals, financial counseling, home office equipment and office parking.

### *Change in Control Agreements*

We have had change in control agreements in place for a long period of time. These agreements are important to ensuring that our named executive officers actively seek to maximize shareholder value, even if it means pursuing a transaction that might result in their termination. Before we entered into the change in control agreements, we engaged a compensation consultant to provide information and advice as to what were competitive payments, benefits, terms and conditions of change in control agreements. We then used this information to structure payment and benefit levels that were competitive in the marketplace, along with appropriate triggers.

The compensation committee has authorized each of our named executive officers to receive protection and associated benefits in the event of a covered termination following a change in control of the company. The agreement with our named executive officers contains a double trigger arrangement, whereby a payment is made only if there is a change in control of Integrys Energy Group and the executive is actually terminated or terminates employment under certain circumstances after being demoted or after certain other adverse changes in the executive's working conditions or status. Specifically, benefits under such an agreement would be triggered if both of the following occur: 1) a change in control event occurs in which a single entity takes ownership of 30% or more of our voting securities, a merger or sale occurs that results in Integrys Energy Group stock constituting less than 50% of the surviving company stock, or a merger or consolidation occurs where the company is not the surviving company; and 2) the event results in the loss of the executive's job or the executive incurs a significant adverse change in his or her working conditions or status compared to the executive's prior position and the executive terminates employment as a result. The agreement also contains confidentiality and non-compete clauses. For specific details regarding change in control benefits, please see the discussion below under the heading Termination of Employment.

The compensation committee periodically reviews the payment and benefit levels in the change in control agreements and the triggers to ensure that the payment and benefit levels remain competitive and appropriate. The compensation committee conducted such a review in 2010. In addition to numerous clarifying amendments, the agreements were modified in 2010 to bring the agreements more in line with market practice, including: 1) reducing the period of protection following the change in control from three to two years following a change in control; 2) reducing the period for which certain welfare benefits would continue following termination from three years to two years; and 3) providing the same level of severance protection (i.e., 2.99 times base and target bonus) for qualifying terminations occurring at any time within the two-year period following a change in control. None of the named executive officers have a gross-up provision in their agreement except for Phillip M. Mikulsky. Mr. Mikulsky's agreement is a legacy agreement which has contained the gross-up provision since 2000. The Company does not intend to provide gross-ups to any other executives.

**Table of Contents**

**Common Stock Ownership Guidelines**

We believe that it is important to align executive and shareholder interests by defining stock ownership guidelines for executives. As a result, named executive officers are expected to retain at least 50% of their future vested stock awards until certain levels of stock are owned, with such levels ranging from two to five times base annual salary, depending on the position. Additionally, we have a policy that prohibits our named executive officers, as well as our directors and all other employees, from engaging in certain transactions including hedging transactions and publicly traded derivatives involving our common stock.

The target level for ownership of Integrys Energy Group common stock was five times annualized base salary for Charles A. Schrock; three times annualized base salary for Joseph P. O'Leary, Mark A. Radtke, and Lawrence T. Borgard; and two times annualized base salary for Phillip M. Mikulsky. Common stock beneficially held in an executive's ESOP account, any other beneficially owned common stock, including that earned through incentive plan awards, common stock equivalents earned through nonqualified deferred compensation programs, and 50% of the difference between the past 12 months' average close and the strike price value of the vested stock options, are included in determining compliance with these guidelines. Performance shares for which incentive targets have not yet been met are not included in the calculation of stock ownership (for guideline purposes) until attainment of the incentive targets of performance shares are certified by the board of directors.

As of December 31, 2011, all named executive officers were in compliance with our stock ownership guidelines.

**Table of Contents**

**Summary Compensation Table for 2011**

The following table sets forth information concerning compensation earned or paid to each of our named executive officers for each of the last three fiscal years consisting of (1) the dollar value of base salary and bonus earned during the applicable fiscal years; (2) the aggregate grant date fair value of stock and option awards, as computed in accordance with the FASB ASC Topic 718 Stock Compensation (all stock option awards in this and the other tables relate to Integrys Energy Group common stock); (3) the dollar value of earnings for services pursuant to awards granted during the applicable fiscal years under non-equity incentive plans; (4) the change in pension value and nonqualified compensation earnings during the applicable fiscal years; (5) all other compensation for the applicable fiscal years; and (6) the dollar value of total compensation for the applicable fiscal years. The named executive officers are our principal executive officer, principal financial officer, and our three other most highly compensated executive officers employed as of December 31, 2011.

Name and Principal Position (a)	Year (b)	Salary	Bonus	Stock	Option	Change in Pension Value and Non-Equity Nonqualified Incentive Deferred Plan Compensation Earnings		All Other Compensation	Total
		\$(1) (c)	\$( (d)	Awards \$(2) (e)	Awards \$(2) (f)	\$(3) (g)	\$(4) (h)	\$(5) (i)	\$( (j)
S. A. Schrock Chairman, President and Chief Executive Officer	2011	865,385	0	1,393,658	403,115	550,542	3,034,687	22,578	6,266,283
	2010	817,693	0	1,716,700	567,763	748,654	2,639,979	22,963	6,513,119
	2009	806,519	0	1,141,631	347,495	818,796	926,281	82,567	4,122,689
P. O. Leary Senior Vice President	2011	489,478	0	560,126	162,010	234,224	361,968	17,223	1,822,799
Chief Financial Officer	2010	466,740	0	693,743	229,442	235,943	662,087	17,014	2,304,967
	2009	486,000	0	549,081	167,146	315,824	432,784	20,440	1,971,275
D. T. Borgard President and Chief Operating Officer Utilities	2011	475,712	0	601,084	173,875	201,720	635,189	18,827	2,104,588
	2010	428,842	0	697,151	230,577	275,375	609,809	16,946	2,253,795
	2009	426,231	0	302,413	92,054	251,200	53,065	22,553	1,145,516
M. Mikulsky (6) Executive Vice President Business Performance and Shared Services	2011	413,337	0	369,532	106,881	182,575	38,553	24,240	1,133,528
A. Radtke Executive Vice President and Chief Strategy Officer	2011	380,704	0	362,124	104,739	157,428	98,035	17,708	1,122,738
	2010	363,020	0	448,513	148,342	536,417	518,522	16,355	2,030,157
	2009	378,000	0	307,053	93,460	1,374,561	30,439	20,016	2,203,519

(1) Amounts shown include amounts deferred into the deferred compensation plan. For more information, see the Nonqualified Deferred Compensation Table for 2011 below.

(2) The amounts shown in columns (e) and (f) reflect the grant date fair value of the awards computed in accordance with FASB ASC Topic 718 Stock Compensation. For information regarding the assumptions made in valuing the stock and option awards, see Note 21 Stock-Based Compensation in Notes to Consolidated Financial Statements in the 2011 Annual Report on Form 10-K; such information is incorporated herein by reference.

## Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

- (3) Non-equity compensation is payable in the first quarter of the next fiscal year, and may be deferred at the election of the named executive officer. Payment is calculated based on the measurement outcomes and as a percent of adjusted gross base salary earnings from the company for services performed during the payroll year.
  
- (4) The amounts shown reflect the calculation of above-market earnings on nonqualified deferred compensation and is based on the difference between 120% of the applicable federal long-term rate (AFR) and the rate of return received on Reserve Accounts A and B. Provided below are the actual rates of return used in the calculation. Note that Reserve Account A was frozen to new deferrals beginning on January 1, 1996, and Reserve Account B was frozen to new deferrals beginning on April 1, 2008.

**Table of Contents**

<b>Time Period</b>	<b>AFR 120%</b>	<b>Reserve A Daily</b>	<b>Reserve B Daily</b>
January 2011 - March 2011	3.99%	8.2603%	5.8531%
April 2011 - September 2011	5.11%	8.9674%	6.3604%
October 2011 - December 2011	3.55%	7.9370%	6.0000%

- (5) The amounts shown for each named executive officer include other compensation items consisting of life insurance premiums, imputed income from life insurance benefits, and Employee Stock Ownership Plan (ESOP) matching contributions. Individual items included in column (i) that were in excess of \$10,000 include ESOP matching contributions for each named executive officer as follows:

<b>Named Executive Officer</b>	<b>ESOP (\$)</b>
Charles A. Schrock	13,385.49
Joseph P. O Leary	13,385.49
Lawrence T. Borgard	13,385.49
Phillip M. Mikulsky	13,385.49
Mark A. Radtke	13,385.49

- (6) The amounts shown are only for 2011 as Mr. Mikulsky was not a named executive officer during 2009 and 2010. With regard to equity awards, no re-pricing, extension of exercise periods, change of vesting or forfeiture conditions, change or elimination of performance criteria, change of bases upon which returns are determined, or any other material modification of any outstanding option or other equity-based award occurred during the fiscal years reported in the table.

**Table of Contents****Grants of Plan-Based Awards Table for 2011**

The following table sets forth information regarding all incentive plan awards that were made to our named executive officers during 2011, including equity and non-equity based awards. Decisions regarding equity and non-equity awards (payable following vesting or performance periods) were made only one time during 2011. Equity incentive-based awards are subject to a performance condition or a market condition as those terms are defined by FASB ASC Topic 718 Stock Compensation. Non-equity incentive plan awards are not subject to FASB ASC Topic 718 Stock Compensation and are intended to serve as an incentive for performance to occur over the given year. For a detailed description of long-term incentive plans (performance shares, restricted stock units and stock options), see the discussion above in the Compensation Discussion and Analysis under the heading Key Components of our Executive Compensation Program Long-Term Incentive Compensation.

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Annual Incentive Plan(1)			Estimated Future Payouts Under Equity Incentive Plan Awards Performance Share Program			All Other Stock Awards: Number of Shares of Stock or Units (#) Restricted	All Other Option Awards: Number of Securities Underlying Options (#) Stock	Exercise or Base Price Option	Grant Date Fair Value of Stock and Option
		Threshold (\$) (c)	Target (\$) (d)	Superior (\$) (e)	Threshold (#) (f)	Target (#) (g)	Superior (#) (h)	Stock Program (i)	Option Program (j)	Awards (\$/Sh) (k)	Awards \$(2) (l)
Charles A. Schrock	2011	0	870,000	1,740,000							
	02/10/11				10,779	21,558	43,116				999,644
	02/10/11							7,976			394,014
Joseph P. O Leary	2011	0	319,593	639,185							
	02/10/11				4,332	8,664	17,328				401,750
	02/10/11							3,206			158,376
Lawrence T. Borgard	2011	0	337,722	675,444							
	02/10/11				4,649	9,298	18,596				431,148
	02/10/11							3,440			169,936
Phillip M. Mikulsky	2011	0	249,118	498,237							
	02/10/11				2,858	5,716	11,432				265,051
	02/10/11							2,115			104,481
Mark A. Radtke	2011	0	248,572	497,144							
	02/10/11				2,800	5,601	11,202				259,718
	02/10/11							2,073			102,406
	02/10/11								15,942	49.40	104,739

(1) Based on the Integrys 2011 Executive Incentive Plan payout percentages. For more information, see the discussion above in the Compensation Discussion and Analysis under the heading Key Components of our Executive Compensation Program Short-Term Incentive Compensation.

(2) Performance shares are valued at \$46.37, the target payout value derived from a Monte Carlo simulation. Restricted stock units are valued at \$49.40, the closing stock price on the grant date. Stock options are valued at \$6.57 on an accounting expense basis based on a proprietary advanced lattice option pricing model.

As reflected in the table above, the compensation committee awarded restricted stock units to each named executive officer in 2011 for the amounts indicated. The restricted stock units had a grant date fair market value per share of \$49.40, based on the closing stock price on the date of the grant. The restricted stock units remain ratably restricted for four years following the date of grant. The dividend rate paid on restricted

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

stock units is equal to the dividend rate of all other outstanding shares of common stock. However, the dividends are deemed to be reinvested in additional restricted stock units which vest according to the vesting schedule.



**Table of Contents**

Stock options were granted in 2011 to each of the named executive officers. These were nonqualified stock options with a grant price equal to the closing stock price on the date of the grant. The per share grant price for these options is \$49.40. One quarter of the options vest each year on the grant anniversary date. The options had a grant date fair value per option of \$6.57 as determined pursuant to FASB ASC Topic 718 - Stock Compensation. The options have an expiration date of February 10, 2021.

Performance shares were granted in 2011 to each of the named executive officers. These grants have a performance period that began on January 1, 2011 and will end on December 31, 2013. The shares are not paid out until the end of this performance period based on the final TSR in comparison to the selected peer group.

For a discussion of the treatment of unvested restricted stock units, stock options and performance shares upon termination, see the discussion below under the heading Termination of Employment.

**Table of Contents****Outstanding Equity Awards Table for 2011**

The following table sets forth information regarding outstanding awards under the stock option plan, restricted stock plan, incentive plans and similar plans, including market-based values of associated rights and/or shares, for each of our named executive officers as of December 31, 2011:

Name	Options Awards(1)				Stock Awards(2)				Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested		
(a)	(#) (b)	(#) (c)	(#) (d)	(\$) (e)	Option Expiration Date (f)	(#)(3) (g)	(\$) (h)	(#)(4)(5) (i)	(\$)(4)(5) (j)
Charles A. Schrock	14,404	0	0	44.73	12/10/13	21,187	1,147,912	50,651	2,744,271
	16,000	0	0	48.11	12/08/14				
	13,585	0	0	54.85	12/07/15				
	14,348	0	0	52.73	12/07/16				
	2,050	0	0	58.65	05/17/17				
	20,190	6,729	0	48.36	02/14/18				
	47,086	47,086	0	42.12	02/12/19				
	26,782	80,343	0	41.58	02/11/20				
	0	61,357	0	49.40	02/10/21				
Joseph P. O Leary	17,371	0	0	44.73	12/10/13	9,811	531,560	20,421	1,106,410
	23,304	0	0	48.11	12/08/14				
	23,955	0	0	54.85	12/07/15				
	25,826	0	0	52.73	12/07/16				
	21,348	0	0	58.65	05/17/17				
	41,105	13,701	0	48.36	02/14/18				
	22,649	22,648	0	42.12	02/12/19				
	10,823	32,468	0	41.58	02/11/20				
	0	24,659	0	49.40	02/10/21				
Lawrence T. Borgard	11,786	0	0	48.11	12/08/14	8,579	464,810	21,113	1,143,902
	12,364	0	0	54.85	12/07/15				
	11,304	0	0	52.73	12/07/16				
	14,044	0	0	58.65	05/17/17				
	22,638	7,546	0	48.36	02/14/18				
	1	12,473	0	42.12	02/12/19				
	1	32,628	0	41.58	02/11/20				
	0	26,465	0	49.40	02/10/21				
	Phillip M. Mikulsky	37,388	0	0	48.11				
32,455		0	0	54.85	12/07/15				
28,761		0	0	52.73	12/07/16				
1,015		0	0	58.65	05/17/17				
22,703		7,567	0	48.36	02/14/18				
12,923		12,922	0	42.12	02/12/19				
7,140		21,420	0	41.58	02/11/20				
0		16,268	0	49.40	02/10/21				
Mark A. Radtke		18,182	0	0	44.73	12/10/13	6,050	327,789	13,202
	21,629	0	0	48.11	12/08/14				

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

23,182	0	0	54.85	12/07/15
21,196	0	0	52.73	12/07/16
6,948	0	0	58.65	05/17/17
22,984	7,661	0	48.36	02/14/18
12,664	12,664	0	42.12	02/12/19
6,998	20,991	0	41.58	02/11/20
0	15,942	0	49.40	02/10/21

(1) Provided below is the corresponding vesting date relative to each option expiration date:

	<b>Grant Date</b>	<b>Full Vesting Date</b>	<b>Expiration Date</b>
12/10/03		12/10/07	12/10/13
12/08/04		12/08/08	12/08/14
12/07/05		12/07/09	12/07/15
12/07/06		12/07/10	12/07/16
05/17/07		05/17/11	05/17/17
02/14/08		02/14/12	02/14/18
02/12/09		02/14/13	02/14/19
02/11/10		02/11/14	02/11/20
02/10/11		02/10/15	02/10/21

**Table of Contents**

(2) Stock price on December 31, 2011, was \$54.18.

(3) The following table reflects the amounts of unvested restricted stock units and corresponding grant dates. Restricted stock units vest over four years, with 25% of the original grant amount vesting each year on the anniversary of the respective grant date:

Named Executive Officer	02/14/08	02/12/09	02/11/10	02/10/11
Charles A. Schrock	563	4,508	7,707	8,409
Joseph P. O Leary	1,148	2,169	3,114	3,380
Lawrence T. Borgard	631	1,193	3,128	3,627
Phillip M. Mikulsky	633	1,239	2,055	2,230
Mark A. Radtke	640	1,211	2,013	2,186

(4) Included in columns (i) and (j) above are the performance shares pertaining to grants made in 2010 and 2011 for the performance periods of 2010-2012 and 2011-2013 and associated payout values, assuming that both grants will pay out at target following completion of each applicable performance period. Based on TSR performance as of December 31, 2011, the grant made in 2010 would pay out at 126% (between target and superior) and the grant made in 2011 would pay out at 0% (below threshold). The following two tables show projected payouts of the 2010 and 2011 performance share grants assuming TSR performance as of December 31, 2011, as well as projected payouts that would occur assuming superior performance (200%):

2010 Performance Share Grant:

Named Executive Officer	Shares at		Market Value	
	126% Payout (#)	200% Payout (#)	(\$)	(\$)
Charles A. Schrock	36,657	58,186	1,986,076	3,152,517
Joseph P. O Leary	14,814	23,514	802,623	1,273,989
Lawrence T. Borgard	14,887	23,630	806,578	1,280,273
Phillip M. Mikulsky	9,773	15,512	529,501	840,440
Mark A. Radtke	9,577	15,202	518,882	823,644

2011 Performance Share Grant:

Named Executive Officer	Shares at		Market Value	
	0% Payout (#)	200% Payout (#)	(\$)	(\$)
Charles A. Schrock	0	43,116	0	2,336,025
Joseph P. O Leary	0	17,328	0	938,831
Lawrence T. Borgard	0	18,596	0	1,007,531
Phillip M. Mikulsky	0	11,432	0	619,386
Mark A. Radtke	0	11,202	0	606,924

(5) Not included in columns (i) and (j) above are the performance shares pertaining to grants made in 2009 for the performance period of 2009-2011. Subsequent to December 31, 2011, a payout at 74% will occur on performance shares for the performance period of 2009-2011 based on final TSR results. The number of earned performance shares attributable to each named executive officer as a result of the threshold level being exceeded, along with the corresponding market value of such shares, is as follows:

Named Executive Officer	Earned Shares (#)	Market or Payout Value of Earned Shares (\$)
Charles A. Schrock	16,516	894,837
Joseph P. O Leary	7,944	430,406
Lawrence T. Borgard	4,375	237,038
Phillip M. Mikulsky	4,533	245,598
Mark A. Radtke	4,442	240,668



**Table of Contents****Option Exercises and Stock Vested Table for 2011**

The following table sets forth amounts received by each of our named executive officers upon exercise of options (or similar instrument) or the vesting of stock (or similar instruments) during 2011:

Name (a)	Option Awards		Stock Awards (1)	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e)
Charles A. Schrock	16,967	217,008	21,667	1,148,716
Joseph P. O Leary	0	0	11,477	606,316
Lawrence T. Borgard	29,584	252,927	8,770	463,263
Phillip M. Mikulsky	0	0	6,392	337,238
Mark A. Radtke	0	0	6,404	337,934

- (1) A payout will be made on performance shares in 2012 based on TSR for the performance period ending December 31, 2011 meeting the threshold requirements. These performance shares had a performance period beginning on January 1, 2009 and ending on December 31, 2011.

**Table of Contents****Pension Benefits Table for 2011**

The following table sets forth the actuarial present value of each named executive officer's accumulated benefit under each defined benefit plan, assuming benefits are paid at normal retirement age based on current levels of compensation. For information regarding the valuation method and all material assumptions applied in quantifying the present value of the current accumulated benefit for each of the named executive officers, see Note 18 Employee Benefit Plans in Notes to Consolidated Financial Statements in the 2011 Annual Report on Form 10-K; such information is incorporated herein by reference. The table also shows the number of years of credited service under each such plan, computed as of the same pension plan measurement date used in the company's audited financial statements for the year ended December 31, 2011. Charles A. Schrock, Joseph P. O'Leary and Phillip M. Mikulsky are currently eligible for early retirement. No pension benefits were paid during the year to any of the named executive officers who were still employed at the end of 2011. For more information regarding pension benefits, please see the discussion above in the Compensation Discussion and Analysis under the heading Key Components of our Executive Compensation Program Other Benefits and Plans.

Name (a)	Plan Name (1) (b)	Number of Years Credited Service (#)(2) (c)	Present Value of Accumulated Benefits (\$)(3) (d)	Payments During Last Fiscal Year (\$)(4) (e)
Charles A. Schrock	Pension Plan	32	1,115,675	0
	Pension Restoration Plan	32	3,472,887	0
	SERP	32	3,947,277	0
	Total	32	8,535,839	0
Joseph P. O'Leary	Pension Plan	10	231,648	0
	Pension Restoration Plan	10	416,575	0
	SERP	10	2,023,681	0
	Total	10	2,671,904	0
Lawrence T. Borgard	Pension Plan	27	770,262	0
	Pension Restoration Plan	27	1,033,012	0
	SERP	27	852,276	0
	Total	27	2,655,550	0
Phillip M. Mikulsky	Pension Plan	40	1,492,434	0
	Pension Restoration Plan	40	2,736,429	0
	SERP	40	321,692	0
	Total	40	4,550,555	0
Mark A. Radtke	Pension Plan	28	817,096	0
	Pension Restoration Plan	28	1,595,658	0
	SERP	28	655,622	0
	Total	28	3,068,376	0

(1) Material terms and conditions of the Integrys Energy Group Retirement Plan (referred to as the pension plan) and the Integrys Energy Group, Inc. Pension Restoration and Supplemental Retirement Plan are described below. Note that for purposes of the above table and all related footnotes, we refer to the pension restoration benefit and supplemental retirement benefit portions of the Integrys Energy Group, Inc. Pension Restoration and Supplemental Retirement Plan separately as the pension restoration plan and SERP, respectively.

*Pension Plan*

These are tax-qualified defined benefit retirement plans generally available to employees hired prior to January 1, 2008. Benefits for the named executive officers are determined under an account-based pension plan formula that defines a lump sum amount at termination of





**Table of Contents**

employment. For more information, see the discussion above in the Compensation Discussion and Analysis under the heading Key Components of our Executive Compensation Program Other Benefits and Plans.

*Pension Restoration Plan*

The purpose of the nonqualified pension restoration plan is to provide an alternate means of paying benefits intended under the pension plan that are either restricted by law or limited because of employee deferrals to the deferred compensation plan. Benefits under the pension restoration plan are generally determined and payable under the same terms and conditions as the pension plan without regard to IRS limitations on amounts of includible compensation and maximum benefits and without regard to employee deferrals of base and annual bonus pay. Benefits paid are reduced by the value of benefits payable under the pension plan. Under plan terms, each participant has executed an election agreement that sets forth the form of payment the participant has chosen to receive following termination of employment (lump sum, lifetime monthly annuity or 180 monthly guaranteed payments).

*SERP*

Nonqualified SERP benefits are generally payable only for participants who retire on or after age 55 with 10 or more years of service. The SERP provides a lump sum option, a life annuity option or a 180 monthly guaranteed benefit payment option. The benefit is initially calculated as a life annuity benefit, with a monthly benefit that equals a target percentage of final average pay (over a three-year period), reduced by the lifetime annuity payable under the pension plan and the pension restoration plan. The target percentage ranges from 40% for 10 years of service to 60% for 15 years of service. Benefits are reduced 3% per year for retirements prior to age 62.

(2) Full years of credited service only. Actual plan benefits are calculated taking into account full and fractional years of credited service.

(3) Change in pension value during 2011 and present value of accumulated benefit at year-end:

*Pension Plan*

For the named executive officers, the amounts shown are based on the present value of the projected pension plan account balances payable at the plan's normal retirement age (age 65). The projected age 65 pension plan account equals the participant's accrued account balance at year-end rolled forward with interest credits to age 65 using the plan's interest rate (3.25% at December 31, 2011, and 4.05% at December 31, 2010). The present value was determined using an interest rate consistent with assumptions used for financial reporting under the Compensation Retirement Benefits Topic of the FASB ASC (5.10% at December 31, 2011, and 5.80% at December 31, 2010). With the merger of qualified pension plans beginning in 2009, the lump sum conversion interest rate was required to be aligned (from annual to monthly interest rate change), impacting legacy Wisconsin Public Service Corporation (WPS) participants. Legacy WPS participants' annuity will be the greater of the monthly rate or annual rate until March 31, 2010 (when the grandfathered period ended). Pension plan lump sum values are not impacted by this change.

For named executive officers covered under the pension plan, the value of the temporary supplemental benefit has been added. The present value was determined assuming current commencement (if currently eligible) or commencement at earliest eligibility (generally age 55) and payment in a single lump sum form, using the plan's interest rate to calculate the lump sum payment (Pension Protection Act segment lump sum rates at December 31, 2011, and December 31, 2010) and using an interest rate consistent with assumptions used in financial reporting under the Compensation Retirement Benefits Topic of the FASB ASC to determine the present value at year-end of the lump sum payable. The benefit was prorated based on current service over service from hire date to date of earliest eligibility.

**Table of Contents**

*Pension Restoration Plan*

The amounts shown are based on the present value of the projected pension plan account balances payable at the plan's normal retirement age (age 65). The projected age 65 pension plan account equals the participant's accrued account balance at year-end rolled forward with interest credits to age 65 using the plan's interest rate (3.25% at December 31, 2011, and 4.05% at December 31, 2010). The present value was determined using an interest rate consistent with assumptions used for financial reporting under the Compensation - Retirement Benefits Topic of the FASB ASC (5.10% at December 31, 2011, and 5.80% at December 31, 2010).

With the merger of qualified pension plans beginning in 2011, the lump sum conversion interest rate was required to be aligned (from annual to monthly interest rate change), impacting legacy WPS participants.

*SERP*

The values shown are based on the present value of the accrued benefit at unreduced retirement age (age 62) reflecting final average pay and service as of the calculation date. The present value was determined assuming commencement at age 62 using an interest rate consistent with assumptions used for the company's financial reporting under the Compensation - Retirement Benefits Topic of the FASB ASC (5.10% at December 31, 2011, and 5.80% at December 31, 2010).

With the merger of qualified pension plans beginning in 2011, the lump sum conversion interest rate was required to be aligned (from annual to monthly interest rate change), impacting legacy WPS participants.

**Table of Contents****Nonqualified Deferred Compensation Table for 2011**

The following table sets forth information regarding the contributions, earnings and balances for each of our named executive officers relative to the nonqualified deferred compensation plan for 2011:

<b>Name</b>	<b>Executive Contributions in Last Fiscal Year</b>	<b>Registrant Contributions in Last Fiscal Year</b>	<b>Aggregate Earnings in Last Fiscal Year</b>	<b>Aggregate Withdrawals/Distributions</b>	<b>Aggregate Balance at Last Fiscal Year End</b>
<b>(a)</b>	<b>(\$)(1)</b>	<b>(\$)(1)</b>	<b>(\$)(2)</b>	<b>(\$)</b>	<b>(\$)(3)</b>
	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>	<b>(f)</b>
Charles A. Schrock	983,725	0	351,544	0	3,296,939
Joseph P. O Leary	737,053	0	367,378	0	2,724,975
Lawrence T. Borgard	47,571	0	206,488	0	1,592,871
Phillip M. Mikulsky	397,547	0	462,723	0	5,228,332
Mark A. Radtke	0	0	176,590	0	1,978,514

- (1) Deferrals into the deferred compensation plan were made from compensation earned in 2011 and are reported in column (c) of the Summary Compensation Table for 2011, with the exception of annual incentive and performance share amounts earned in 2010 but paid out and deferred in 2011. These amounts are as follows:

<b>Name</b>	<b>Annual Incentive Payout (\$)</b>	<b>Performance Share Payout (\$)</b>
Charles A. Schrock	374,327	299,439
Joseph P. O Leary	0	609,631
Lawrence T. Borgard	0	0
Phillip M. Mikulsky	0	336,685
Mark A. Radtke	0	0

- (2) Above-market earnings received on Reserve Accounts A and B are reported in column (h) of the Summary Compensation Table for 2011.

- (3) The aggregate balance includes amounts shown in footnote (1) and the above-market earnings on Reserve Accounts A and B, which are included in column (h) of the Summary Compensation Table for 2011.

The following table sets forth the actual earnings during 2011 of each deferred compensation account held by the named executive officers:

<b>Name</b>	<b>Aggregate Earnings for Reserve A in Last Fiscal Year (\$)</b>	<b>Aggregate Earnings for Reserve B in Last Fiscal Year (\$)</b>	<b>Aggregate Earnings for Mutual Funds in Last Fiscal Year (\$)</b>	<b>Aggregate Earnings for Stock in Last Fiscal Year (\$)</b>	<b>Aggregate Earnings in Last Fiscal Year (\$)</b>
Charles A. Schrock	20,208	1,001	(67,785)	398,120	351,544

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Joseph P. O Leary	0	0	(2,958)	370,336	367,378
Lawrence T. Borgard	0	1,100	(3,808)	209,196	206,488
Phillip M. Mikulsky	64,348	25,187	46,349	326,839	462,723
Mark A. Radtke	0	0	(31,206)	207,796	176,590

For further details regarding the deferred compensation accounts, including rates of return, see the discussion above in the Compensation Discussion and Analysis under the heading Key Components of our Executive Compensation Program Other Benefits and Plans. Upon retirement or termination of employment, distribution of the named executive officer's account will commence the January of the year that is both (1) following the calendar year of termination of employment and (2) at least six months following termination or later if a later date is selected by the named executive officer. The named executive officer can elect a distribution period from 1 to 15 years. Payouts, withdrawals or other distributions cannot commence under the plan while the named executive officer is actively employed.

**Table of Contents****Termination of Employment**

An executive officer may voluntarily terminate his or her employment with the company, including pursuant to his or her retirement, or the company may terminate the executive officer's employment with or without cause (referred to as involuntary termination). If a named executive officer's employment is terminated after a change in control event has occurred, in the circumstances discussed below, the named executive officer is entitled to enhanced compensation benefits under the officer's change in control agreement. Prior to a change in control, a named executive officer terminating employment is entitled to receive only those benefits earned, accrued and vested prior to the date of termination. There are no provisions for enhanced payments or benefits to be granted to the named executive officers for termination of employment, except as described below with regard to retirement.

Under the change in control agreements, the definition of "cause" is relevant if the executive officer's employment is terminated after a change in control event has occurred. The term "cause" as defined in the change in control agreements for the named executive officers, means any one of the following: 1) intentional conduct by the executive officer that is not taken in good faith, which causes demonstrable and serious financial injury to us, as evidenced by a determination in a binding and final judgment in effect after exhaustion of all rights of appeal; 2) the executive officer being convicted of a felony, which substantially impairs the officer's ability to perform his duties or responsibilities; 3) the executive officer's continuing willful and unreasonable refusal to perform the officer's duties or responsibilities (unless significantly changed without the officer's consent); or 4) a material violation of the company's code of conduct. If a change in control event has occurred and, during the term of the contract, the named executive officer's employment is terminated by us for reasons other than "cause," or if the executive terminates for "good reason," then the executive officer receives the full change in control benefits. On the other hand, if a change in control event has occurred and the named executive officer's employment is involuntarily terminated for "cause," or the officer voluntarily terminates employment other than for "good reason," then the executive officer is entitled only to receive benefits that have already accrued and vested, but the executive officer is not entitled to receive the change in control benefits.

Each of our named executive officers, including Charles A. Schrock, our current CEO, has a change in control agreement that provides for a termination payment of up to 2.99 times current salary and normal annual incentives. The executive officer may elect to receive the termination payment within the IRS change in control limit, to avoid excise taxes, or to receive the fully calculated change in control payment subject to applicable excise taxes. In addition to the termination payment, an affected executive would receive health and welfare benefits, outplacement services, and up to \$10,000 for fees and expenses of consultants, legal and/or accounting advisors engaged by the executive to compute benefits or payment due under the agreement.

With regard to retirement, the only enhanced value a named executive officer receives is derived from unvested equity grants, as vesting continues on stock options and restricted stock granted prior to retirement and performance periods continue on performance shares granted prior to retirement, provided that retirement occurs on or after December 31 of the calendar year in which the grant was made. Provided below are estimated aggregate compensation and benefits that may be payable to named executive officers in the event of termination of employment. These estimates assume that termination occurred on December 31, 2011.

Type of Termination	Charles A. Schrock (\$)	Joseph P. O Leary (\$)	Lawrence T. Borgard (\$)	Phillip M. Mikulsky (\$)	Mark A. Radtke (\$)
Retirement (1)	16,942,958	6,814,804	N/A	6,759,494	N/A
Change In Control (2)	21,645,825	9,065,579	8,477,561	8,654,366	8,816,818

N/A Not applicable

- (1) Mr. Schrock, Mr. O Leary and Mr. Mikulsky are currently eligible for retirement as of December 31, 2011 under the pension program, as specified in the plan documents.

**Table of Contents**

Termination for reasons that are voluntary/involuntary/for cause, including death/disability, would be treated the same as retirement. Included in the value shown is the present value of future retirement benefit payments. Under the pension restoration plan and the SERP, certain participants will be paid a monthly benefit (for a fixed number of payments or a lifetime annuity). The present value of future monthly benefit payments was determined using an interest rate and mortality table consistent with assumptions used for financial reporting under the Compensation-Retirement Benefits Topic of the FASB ASC. Also included in the total is the enhanced value for any outstanding equity grants.

- (2) The amounts reflected do not include potential forfeitures that an executive may experience in the event benefits are above the IRS change in control limit and the executive chooses to reduce the termination payment below such limit.

No change in control triggering event occurred in 2011 that affected the named executive officers. The change in control estimate above provides the approximate cash severance amount, the present value of enhanced pension, health and welfare and outplacement benefits, the amount due for interrupted performance cycles, and the intrinsic value of stock-based awards for each named executive officer.

The treatment of unvested stock options, unvested restricted stock and performance shares in which the performance period has not yet ended, varies depending on the circumstances of termination and by the type of long-term incentive. Provided below is a summary of how each type of 2011 long-term incentive is handled based on the type of termination:

<b>Type of Termination</b>	<b>Stock Options</b>	<b>Restricted Stock</b>	<b>Performance Shares</b>
Voluntary/Involuntary/For Cause	Shares not vested are forfeited unless early retirement on or after age 55 with 10 years service or reaching age 62, death or disability.	Shares not vested are forfeited unless early retirement on or after age 55 with 10 years service or reaching age 62, death or disability.	Shares not vested are forfeited unless early retirement on or after age 55 with 10 years service or reaching age 62, death or disability.
Retirement on or After Age 55 with 10 Years Service or Reaching Age 62	At retirement, the shares continue to vest as if actively employed; no change occurs to the vesting schedule. If retirement occurs within the calendar year that the award is granted, the last grant is prorated.	At retirement, the units continue to vest as if actively employed; no change occurs to the vesting schedule. If retirement occurs within the calendar year that the award is granted, the last grant is prorated.	At retirement the performance period continues as if actively employed. If retirement occurs within the calendar year that the award is granted, the last grant is prorated.
Change in Control	The outstanding and unexercised options will become fully vested, but subject to any terms of the change in control agreement.	The shares become fully vested, even if not otherwise vested, and whether or not employment is terminated.	The performance period is terminated; the employee is entitled to a final award based on the target award prorated for the portion of performance period that has been completed at time of change in control agreement.

**Table of Contents**

**Compensation Committee Report**

The compensation committee has reviewed and discussed with management the above compensation discussion and analysis section of this proxy statement. Based on this review and discussion, the compensation committee recommended that the compensation discussion and analysis be included in Integrys Energy Group's annual report on Form 10-K for the fiscal year ended December 31, 2011, and this proxy statement.

Compensation Committee

John W. Higgins, Chair

William J. Brodsky

Albert J. Budney, Jr.

Kathryn M. Hasselblad-Pascale

Paul W. Jones

*This Compensation Committee Report is not to be deemed soliciting material or deemed to be filed with the SEC or subject to Regulation 14A of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically requested by Integrys Energy Group or incorporated by reference in documents otherwise filed.*

**COMPENSATION RISK ASSESSMENT**

Our compensation committee and our management team engaged in a process of evaluation of our compensation policies and practices for our employees and the risks arising therefrom. The compensation consultant engaged by the compensation committee and our company's outside counsel assisted in this evaluation. The evaluation process began with our management team taking an inventory of our compensation arrangements and identifying the risks arising from the arrangements as well as measures we have taken to mitigate such risks. Specifically, our management team (a) assessed the key compensation policies from a risk perspective, (b) identified the risks disclosed in our most recent Annual Report on Form 10-K, (c) determined the impact of compensation policies and practices on such risk factors, (d) determined whether additional risks, not previously disclosed as a risk factor, might be created from our compensation policies and practices, and (e) determined whether any disclosure was necessary (namely, whether any identified risks were reasonably likely to have a material adverse effect). Our compensation committee then reviewed our management team's process and the conclusions that our management team reached, and concluded that our employee compensation programs are designed with the appropriate balance of risk and reward in relation to our overall business strategy and do not incent executives or other employees to take unnecessary or excessive risks. As a result, we believe that risks arising from our employee compensation policies and practices are not reasonably likely to have a material adverse effect on our company.

**Table of Contents**

**DIRECTOR COMPENSATION**

**Compensation Philosophy**

Our compensation policies for directors are designed to attract and retain the most qualified individuals to serve on the board of directors in the industry in which we operate. We believe that our director compensation packages for our non-employee directors are comparable relative to the competitive energy/utility market. General market information relative to the market median director compensation provided by Exequity LLP, a nationally recognized compensation consultant, was reviewed in setting non-employee director compensation for 2011.

**Role of the Governance Committee**

Recommendations regarding non-employee director compensation are made by the governance committee. The compensation consultant provides the governance committee with a competitive compensation analysis of outside director compensation programs relative to the energy industry survey group and the general industry survey group for use in their decision-making. Although the compensation consultant provides market data for consideration by the governance committee in setting our non-employee director compensation levels and programs, the compensation consultant does not make specific recommendations on individual compensation amounts for our non-employee directors, nor does the consultant determine the amount or form of non-employee director compensation. All decisions on non-employee director compensation levels and programs are made by the full board of directors based on the recommendation provided by the governance committee.

**Components of Director Compensation**

Our non-employee director compensation for 2011 was composed of an annual cash retainer and stock-based award. The equity portion of our non-employee director compensation is designed to align directors' interests with shareholders' interests and is in the form of deferred stock units which are held in the nonqualified Integrys Energy Group, Inc. Deferred Compensation Plan (for a description of this plan and investment options, see the discussion above in the Compensation Discussion and Analysis under the heading Key Components of our Executive Compensation Program Other Benefits and Plans ). The directors may also defer their cash retainer into the Deferred Compensation Plan. In addition, directors receive \$50,000 of Accidental Death and Dismemberment insurance coverage. Our non-employee directors receive no incentive plan compensation, qualified pension benefits, or perquisites. Our employee directors receive no compensation for serving as directors.

**Common Stock Ownership Guidelines**

Our board of directors believes it is important for our non-employee directors to be subject to stock ownership guidelines to emphasize the importance of linking director and shareholder interests. Our board of directors has adopted guidelines that provide the target level for stock ownership of our non-employee directors is five times their annual equity award, with this target to be obtained within a four-year period from commencing service. As of December 31, 2011, all non-employee directors were complying with our stock ownership guidelines. For more information regarding stock ownership guidelines that apply to our employee directors, see the discussion above in the Compensation Discussion and Analysis under the heading Common Stock Ownership Guidelines.



**Table of Contents****Director Compensation Tables for 2011**

The following table sets forth a summary of compensation for each non-employee director who served during 2011:

Name (a)	Fees Earned or Paid in Cash \$(1) (b)	Stock Awards \$(2) (c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(3) (f)	Total \$( (h)
Keith E. Bailey	80,000	75,000	0	155,000
Richard A. Bemis (4)	33,333	75,000	29,519	137,852
William J. Brodsky	75,000	75,000	0	150,000
Albert J. Budney, Jr.	75,000	75,000	0	150,000
Pastora San Juan Cafferty	75,000	75,000	0	150,000
Ellen Carnahan	80,000	75,000	0	155,000
Michelle L. Collins (5)	50,000	50,000	0	100,000
Robert C. Gallagher (4)	31,250	75,000	16,110	122,360
Kathryn M. Hasselblad-Pascale	80,000	75,000	0	155,000
John W. Higgins	78,333	75,000	0	153,333
Paul W. Jones (6)	6,250	6,250	0	12,500
James L. Kemerling	90,000	75,000	19,857	184,857
Michael E. Lavin	85,000	75,000	0	160,000
William F. Protz, Jr.	75,000	75,000	0	150,000

(1) Directors fees paid to non-employee directors in 2011, include:

\$75,000 annual cash retainer.

\$15,000 to serve as Lead Independent Director of the board of directors.

\$10,000 to serve as chair of the audit committee and \$5,000 to serve as chair of the compensation committee, environmental committee, financial committee or governance committee.

Fees paid for serving in the position of Lead Independent Director or as chair of a committee are prorated based on months served if a director is newly appointed during the year.

(2) The amounts shown in column (c) reflect the grant date fair value of the deferred stock unit computed in accordance with FASB ASC Topic 718 Stock Compensation.

(3) The amounts shown reflect the calculation of above-market earnings on nonqualified deferred compensation and is based on the difference between 120% of the applicable federal long-term rate (AFR) and the rate of return received on Reserve Accounts A and B. There is no

change in pension value for any director as directors are not provided pension benefits.

- (4) Mr. Bemis and Mr. Gallagher retired from the board of directors on May 11, 2011.
- (5) Ms. Collins was elected to the board of directors effective May 11, 2011.
- (6) Mr. Jones was elected to the board of directors effective December 15, 2011.

**Table of Contents**

The following table sets forth the number of deferred stock units held by non-employee directors who served during 2011 at December 31, 2011:

Name	Deferred Stock Units (#)
Keith E. Bailey	8,139
Richard A. Bemis	16,309
William J. Brodsky	8,139
Albert J. Budney, Jr.	13,993
Pastora San Juan Cafferty	8,139
Ellen Carnahan	12,466
Michelle L. Collins	976
Robert C. Gallagher	16,309
Kathryn M. Hasselblad-Pascale	16,309
John W. Higgins	8,139
Paul W. Jones	121
James L. Kemerling	16,309
Michael E. Lavin	8,139
William F. Protz, Jr.	16,309
Total	149,796

The following table sets forth the earnings during 2011 of each deferred compensation account held by each non-employee director who served during 2011:

Name	Aggregate Earnings for Reserve A in Last Fiscal Year (\$)	Aggregate Earnings for Reserve B in Last Fiscal Year (\$)	Aggregate Earnings for Mutual Funds in Last Fiscal Year (\$)	Aggregate Earnings for Company Stock In Last Fiscal Year (\$)	Aggregate Earnings in Last Fiscal Year (\$)
Keith E. Bailey	0	0	0	65,927	65,927
Richard A. Bemis	60,213	0	(42,916)	214,918	232,215
William J. Brodsky	0	0	0	215,614	215,614
Albert J. Budney, Jr.	0	0	0	113,762	113,762
Pastora San Juan Cafferty	0	0	(16,133)	84,600	68,467
Ellen Carnahan	0	0	0	180,897	180,897
Michelle L. Collins	0	0	0	2,897	2,897
Robert C. Gallagher	32,862	0	3,085	237,538	273,485
Kathryn M. Hasselblad-Pascale	0	0	0	154,866	154,866
John W. Higgins	0	0	0	65,927	65,927
Paul W. Jones	0	0	0	305	305
James L. Kemerling	20,144	35,882	(6,307)	200,412	250,131
Michael E. Lavin	0	0	0	65,927	65,927
William F. Protz, Jr.	0	0	0	201,361	201,361

**Table of Contents**

**AUDIT COMMITTEE REPORT**

The audit committee reviewed and discussed with management the audited financial statements of Integrys Energy Group, Inc. including disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2011. In addition, we have discussed with Deloitte & Touche LLP, the independent registered public accounting firm for Integrys Energy Group, the matters required by auditing standards of the Public Company Accounting Oversight Board and Rule 2-07, Communication with Audit Committees of Regulation S-X. The audit committee also reviewed and discussed with management and Deloitte & Touche LLP the assessment and audit of internal control over financial reporting.

The audit committee also received the written disclosures and letter from Deloitte & Touche LLP required by PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, and discussed the firm's independence with respect to Integrys Energy Group. We have also discussed with management of Integrys Energy Group and Deloitte & Touche LLP such other matters and received such assurances from them, as we deemed appropriate.

Based on the foregoing review and discussions and relying thereon, we have recommended to Integrys Energy Group's board of directors the inclusion of the audited financial statements in Integrys Energy Group's annual report on Form 10-K for the year ended December 31, 2011.

Audit Committee

Michael E. Lavin, Chair

Keith E. Bailey

Pastora San Juan Cafferty

Michelle L. Collins

*This Audit Committee report is not to be deemed soliciting material or deemed to be filed with the SEC or subject to Regulation 14A of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically requested by Integrys Energy Group or incorporated by reference in documents otherwise filed.*

**Table of Contents**

**DOCUMENTS INCORPORATED BY REFERENCE IN FORM 10-K**

Information regarding the assumptions made in valuing the stock and option awards contained in Note 21 Stock-Based Compensation in Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K and information regarding the valuation method and assumptions applied in quantifying the present value of the pension benefits contained in Note 18 Employee Benefit Plans in Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K, is incorporated by reference into this proxy statement.

Our 2011 Annual Report on Form 10-K can be accessed on our website at [www.integrysgroup.com/investor](http://www.integrysgroup.com/investor) by selecting SEC Filings. If you are a shareholder and would like to receive a copy of our 2011 Annual Report on Form 10-K, without exhibits, please write to Integrys Energy Group, Inc., Attention: Secretary, 130 East Randolph Street, Chicago, Illinois 60601

**ELECTRONIC AVAILABILITY OF PROXY STATEMENT AND ANNUAL REPORT**

As permitted by SEC rules, we are making this proxy statement and our annual report (including financial statements and the report of our independent registered public accounting firm, Deloitte & Touche LLP) available to shareholders electronically via the Internet at [www.proxyvote.com](http://www.proxyvote.com). On March 26, 2012, we began mailing to our shareholders a notice containing instructions on how to access this proxy statement and our annual report and how to vote online. If you received that notice, you will not receive a printed copy of the proxy materials unless you request it by following the instructions for requesting such materials contained on the notice or set forth in the following paragraph.

If you received a paper copy of this proxy statement by mail and you wish to receive a notice of availability of next year's proxy statement either in paper form or electronically via email, you can elect to receive a paper notice of availability by mail or an email message that will provide a link to these documents on our website. By opting to receive the notice of availability and accessing your proxy materials online, you will save us the cost of producing and mailing documents to you, reduce the amount of mail you receive, and help preserve environmental resources. You may elect to receive electronic proxy and annual report access or a paper notice of availability for future annual meetings by registering online at [www.proxyvote.com](http://www.proxyvote.com). If you received an electronic or paper notice of availability of these proxy materials and wish to receive paper delivery of a full set of future proxy materials, you may do so at the same location.

We are required to provide an annual report and proxy statement or notice of availability of these materials to all shareholders of record. To reduce the expense of delivering duplicate proxy materials to shareholders who may have more than one account holding but share the same address, we have adopted a procedure approved by the SEC called householding. Under this procedure, shareholders who have the same mailing address and last name, and do not participate in electronic delivery of proxy materials, will receive only one copy of the annual report and proxy statement or notice of availability of these materials.

If you are a registered shareholder and would like to have separate copies of the annual report and proxy statement or notice of availability of these materials mailed to you in the future, you must submit a request to opt out of householding in writing to Broadridge Financial Solutions, Inc., Household Department, 51 Mercedes Way, Edgewood, New York, 11707, or call Broadridge at (800) 542-1061, and we will cease householding all such documents within 30 days. If you are a beneficial shareholder and would like to have separate copies of the annual report and proxy statement or notice of availability of these materials mailed to you in the future, contact your broker.

**Table of Contents**

**OTHER BUSINESS**

At the time this proxy statement went to press, there were no shareholder proposals required to be included in this proxy statement for consideration at our May 10, 2012, annual meeting. If any other matters are properly presented at the annual meeting, the persons named as proxies will vote upon them in accordance with their best judgment.

Our officers, directors and employees may solicit proxies by correspondence, telephone, electronic communications, or in person, but without extra compensation. Banks, brokers, nominees and other fiduciaries may be reimbursed for reasonable charges and expenses incurred in forwarding the proxy soliciting material to and receiving proxies from beneficial owners.

**FUTURE SHAREHOLDER PROPOSALS**

Under Rule 14a-8 of the Securities Exchange Act of 1934 shareholder proposals for our 2013 annual meeting of shareholders must be received no later than November 26, 2012, to be included in the 2013 proxy statement. Our by-laws allow additional shareholder proposals for the 2013 annual meeting to be accepted between January 10, 2013, and February 9, 2013. However, proposals received in this time frame will be included in our 2013 proxy statement at our sole discretion. If we choose to present any such proposals at the 2013 annual meeting, the persons named in proxies solicited by our board of directors for our 2013 annual meeting of shareholders may exercise discretionary voting power with respect to any such proposals. Shareholder proposals received before January 10, 2013, may be submitted to shareholder vote at our sole discretion (we may exercise discretionary voting power with respect to any such proposals), but proposals received after February 9, 2013, will not be considered for submission to shareholders. Proposals should be submitted to Integrys Energy Group, Inc., Attention: Secretary, 130 East Randolph Street, Chicago, Illinois 60601.

INTEGRYS ENERGY GROUP, INC.  
BARTH J. WOLF  
*Vice President, Chief Legal Officer and Secretary*

**Table of Contents**

*INTEGRYS ENERGY GROUP, INC.*

*ATTN: INVESTOR RELATIONS*

*130 EAST RANDOLPH STREET*

*CHICAGO, IL 60601*

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future notices of availability of proxy materials or proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone (if calling within the United States) to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

**If you vote your proxy by Internet or by telephone, please do NOT mail back the proxy card. You can access, view and download this year's Annual Report and Proxy Statement at [www.proxyvote.com](http://www.proxyvote.com).**

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M42647-P18799  
KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**INTEGRYS ENERGY GROUP, INC.**

**For All**   **Withhold All**   **For All Except**

To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

**The Board of Directors recommends you vote FOR ALL of the nominees below:**

**Vote on Directors**

1. Election of Directors

..   ..   ..

**Nominees:**

- |                                   |                           |
|-----------------------------------|---------------------------|
| 01) Keith E. Bailey               | 08) John W. Higgins       |
| 02) William J. Brodsky            | 09) Paul W. Jones         |
| 03) Albert J. Budney, Jr.         | 10) Holly K. Koepfel      |
| 04) Pastora San Juan Cafferty     | 11) Michael E. Lavin      |
| 05) Ellen Carnahan                | 12) William F. Protz, Jr. |
| 06) Michelle L. Collins           | 13) Charles A. Schrock    |
| 07) Kathryn M. Hasselblad-Pascale |                           |

**Vote on Proposals**

**The Board of Directors recommends you vote FOR the following proposals:**

2. The approval of a non-binding advisory resolution to approve the compensation of our named executive officers.

**For**   **Against**   **Abstain**  
 ..   ..   ..

3. The approval of an amendment to our articles of incorporation to adopt a majority voting standard for future director elections.

..   ..   ..

4. The ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2012.

..   ..   ..

**NOTE:** In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

For address changes and/or comments, please check this box and provide the information on the back of this card where indicated.

..

Please indicate if you plan to attend this meeting.

..   ..  
**Yes**   **No**



## Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

Please sign exactly as your name(s) appear(s) on this Proxy. When shares are held jointly, each holder should sign. When signing as attorney, executor, administrator, trustee, guardian or other fiduciary, please give full title as such. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

**Table of Contents**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

M42648-P18799

**INTEGRYS ENERGY GROUP, INC**

**Notice of Annual Meeting of Shareholder**

**To Be Held May 10, 2012 10:00 AM CDT**

**Proxy Solicited on behalf of the Board of Directors**

The shareholder(s) hereby appoint(s) Charles A. Schrock and Barth J. Wolf as proxies, each with the power to appoint a substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this form, and to vote at their discretion upon such other business as may properly come before the meeting, all the shares of common stock of Integrys Energy Group, Inc. held of record by the undersigned on March 13, 2012, at the Annual Meeting of Shareholders to be held at 10:00 AM, CDT on May 10, 2012, at the Chase Auditorium in the Chase Tower, 10 South Dearborn Street, Chicago, IL, 60602 or any adjournment or postponement thereof.

**This proxy, when properly executed, will be voted in the manner directed by the shareholder(s). If no direction is made, this proxy will be voted FOR ALL NOMINEES for director listed on the reverse side; FOR proposals 2, 3, and 4; and according to the discretion of the proxy holders on any matters that may properly come before the meeting or any other postponement or adjournment thereof.**

Please indicate in the comment box any topics you would like to have addressed as part of management's presentation at the Annual Meeting of Shareholders on May 10, 2012.

**Address Changes/Comments:**

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form DEF 14A

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

**Continued and to be signed on reverse side**