

FREDERIC W. COOK & CO., INC.

THE 2004 TOP 250

*Long-term Incentive
Grant Practices for Executives*

SEPTEMBER 2004

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Corporate America is in the midst of a major restructuring of the long-term incentive component of executive compensation programs. Pending accounting rule changes, increasing and resounding shareholder pressure, and economic uncertainty and volatility are prompting companies to rethink their long-term incentive strategies.

The Financial Accounting Standards Board's proposal to impose an accounting expense on stock options is one of the key drivers behind the changes. In advance of the pending FASB mandate, many companies have voluntarily elected to expense stock options as prescribed in FAS 123. Long-term incentive practices among these so-called early adopters are believed to be indicative of future practices of all companies once the new accounting rules "level the playing field" between stock options and other types of long-term incentives.

Major findings from Frederic W. Cook & Co.'s 2004 study of executive long-term incentive grant practices at the Top 250 largest U.S. companies include the following:

- **Use of Full-Value Shares Increasing** — There has been a steady expansion in the use of restricted shares for executives over the last few years, from 43% of Top 250 companies in 2001 awarding restricted stock to over half of the companies (54%) in this year's study. The use of performance shares and units also increased from last year's levels.
- **CEO Pay Shifting Away From Stock Options** — CEO pay mix is also shifting away from options to greater value delivered in restricted stock and other types of full-value shares. For companies adopting FAS 123, the percentage of the total long term incentive value delivered in stock options in 2003 *fell* to 58%, compared to 73% of the total value delivered in 2001. The shift is similar but less dramatic among non-FAS 123 adopters, where stock options fell to 71% of the total long-term incentive value delivered in 2003, compared to 81% in 2001. Conversely, the value delivered in restricted shares at FAS 123 adopters *increased* from 17% in 2001 to 29% in 2003. For non-FAS 123 adopters the increase in restricted stock value was from 11% to 17%.
- **CEO Long-term Incentive Value Declined** — Actual CEO long-term incentive value declined from 2001 to 2003. While long-term values may be creeping back up slightly from 2003 to 2004, median long-term values *fell* by 11% at FAS 123 companies and 19% at non-FAS 123 companies between 2001 and 2003. Moreover, the 75th percentile long-term incentive value has retreated towards the median, with values declining approximately 25% for both FAS 123 and non-FAS 123 companies.

The details underlying these key findings are presented, along with additional analyses and information, in Frederic W. Cook & Co.'s 2004 Top 250 Report that follows.

INTRODUCTION

OVERVIEW AND BACKGROUND

Since 1973, **Frederic W. Cook & Co.** has extensively researched and published an annual report on long-term incentive grant practices for executives of the largest U.S. companies. This 2004 report, our 32nd edition, is based on the 250 largest companies in the Standard & Poor's 500 Index ("Top 250") as reported in the Special Spring 2004 issue of *Business Week* magazine. Selection of these companies was based on their total market capitalization, i.e., share price multiplied by total common shares outstanding, as of February 28, 2004.

INFORMATION PROVIDED

The following topics are covered in this report:

- Continuing and new long-term incentive grant types (new grant types include those granted this year or those that the companies indicated will be granted next year)
- Stock option design features
- Other grant type variations
- Payment of annual incentives in stock or stock options
- Comparison of those companies that have adopted the "fair value" accounting method for stock-based compensation as prescribed under Financial Accounting Standard 123 ("FAS 123")
- An analysis of CEO long-term incentive grants, comparing award types and actual award levels from 2001 to 2003

OTHER POINTS TO KEEP IN MIND

Definitions for each grant type appear in the *Appendix*.

Last year we began separating out from this study the stock-based grant practices for directors and stock ownership guidelines for executives and directors. This year, those topics continue to be covered in separate reports, *Director Compensation: Nasdaq 100 vs. NYSE 100* and *Stock Ownership Policies*, which are available on our website at www.fwcook.com.

The information in this report is based on information publicly disclosed in company proxy statements, annual reports, 10-K and 10-Q filings. It should be noted that comparisons to prior-year practices, other than those relating to the CEO analysis, generally do not reflect a constant company population, since, as noted above, a point-in-time snapshot of company size determines inclusion in this report. Therefore, "trend" data can be influenced by changes in the company sample from year-to-year, as well as actual changes in equity grant practices. A total of 20 companies, representing 8% of the companies reviewed, did not appear in last year's report. Comparisons from prior year practices are contained, however, in the CEO analysis section, since current and historic long-term incentive grant practices were compared to a constant company population.

EXECUTIVE LONG-TERM INCENTIVE GRANTS

The information presented throughout this report focuses on long-term incentive grants currently in use or expected to be in use in the near future, rather than on the company’s ability to make a particular type of grant. A grant type is considered to be in use at a particular company if grants have been made within the latest three fiscal years and there is no evidence that this granting practice has been discontinued, or if the company indicates that the grant will be used prospectively. While most data reflect usage through fiscal year 2003, the survey attempts to present more current grant practices wherever possible.

To be considered a “long-term incentive” grant for purposes of this report, it must possess the following characteristics:

- The grant type must generally be made under a formal plan or practice, and may not have *both* limited scope and limited frequency. A grant with *limited scope* is awarded to only a handful of key executives. A grant with *limited frequency* is an award that is not made consistently. Therefore, a grant determined to be made specifically as a hiring incentive, replacement of lost benefits upon hiring, or promotional award is typically excluded. A grant with limited scope but without limited frequency may be considered a long-term incentive, and vice versa.
- The grant type must not be delivered primarily to accommodate foreign tax or securities laws. For example, a company that grants stock appreciation rights (SARs) in foreign countries as an alternative to the normal award of stock options in the U.S. is not considered to grant SARs as a long-term incentive.

In an effort to identify trends in long-term incentive grant practices, grants have been classified into either of the following categories:

Continuing	Long-term incentives that were in use prior to the latest fiscal year and continue to be used
New	Long-term incentives that were initially used during the latest fiscal year or that have not yet been used, but will be used in the near future according to disclosed company direction

EXECUTIVE LONG-TERM INCENTIVE GRANTS TYPES

Grant Type (See Appendix for definition)	Percent of Companies Using Grant Type		
	2002 Report	2003 Report	2004 Report
Stock Options	>99%	99%	95%
• Performance	16	13	6
– <i>Vesting</i>	4	3	1
– <i>Accelerated-Vesting</i>	12	10	5
• Restoration (Reload)	16	14	10
• Premium	6	3	2
• Discount	2	<1	<1
• Indexed	0	0	1
Restricted Stock	43%	49%	55%
• PARSAPs	2	3	4
Performance Shares	30%	26%	30%
Performance Units	21%	17%	19%
SARs	1%	1%	3%
• Tandem	1	<1	1
• Freestanding	0	1	2
• Additive	0	0	0
Tandem Grants	<1%	<1%	1%
Formula-Value Grants	<1%	<1%	<1%

EXECUTIVE STOCK OPTION FEATURES

Performance Stock Options:

Performance Vesting –

E.I. du Pont de Nemours Transocean

Performance-Accelerated Vesting –

Apollo Group	Honeywell
Capital One Financial	Kroger
Charles Schwab	Lehman Brothers Holdings
Chiron	Raytheon
Hartford Financial Services	SLM
Electronic Data Systems	U.S. Bancorp

Restoration Stock Options

3M	Sara Lee
Abbott	McGraw-Hill
Allstate	Mellon Financial
Altria	Morgan Stanley
Burlington Northern Santa Fe	Northrop Grumman
Capital One Financial	National City Corp
Chubb	PNC Financial Services
Corning	Sears Roebuck
Illinois Tool Works*	SLM
International Paper	Southwest Airlines
Kellogg	Tribune
Lexmark	Verizon
Masco	Wells Fargo

Premium Stock Options:

Chubb	IBM
Electronic Data Systems	XL Capital
Gap	

Discount Stock Options:

Gap

** Did not grant options to executives in 2003*

OTHER EXECUTIVE GRANT TYPE VARIATIONS

SARs:

Freestanding -
Apache
General Electric
JP Morgan Chase
Masco
Merrill Lynch

Tandem -
Marathon Oil
Merrill Lynch

PARSAPs:

Charles Schwab
EMC
KeyCorp
May Department Stores
Mellon Financial

Staples
TJX
US Bancorp
Yahoo

Formula-Value Grants:

Johnson & Johnson

Tandem Grants:

Becton-Dickenson

Mellon Financial

MANDATORY PAYMENT OF ANNUAL INCENTIVES IN STOCK OR STOCK OPTIONS

Stock or Stock Units

3M	General Mills	National City
Bank of America	Goldman Sachs Group	PNC Financial Services
Citigroup	H&R Block	Sara Lee
Consolidated Edison	H.J. Heinz	SLM
E.I. du Pont de Nemours	Johnson & Johnson	St. Paul Travelers
Eli Lilly	Lehman Brothers Holdings MBIA	United Parcel Service
Equity Office Properties	MBNA	Walt Disney
Gannett	Mellon Financial	
	Marsh & McLennan	

Stock Options

Electronic Data Systems	Northern Trust
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**Stock/Stock Units or
Stock Options**

Merrill Lynch (SARs)	Morgan Stanley
Moody's	

Allstate	Exxon Mobil	National City
American Express	Fannie Mae	PACCAR
American International Group	Ford Motor	PepsiCo
Anadarko Petroleum	General Electric	PNC Financial Services
AT&T	General Motors	Principal Financial Group
Bank of America	Goldman Sachs Group	Procter & Gamble
Bank of New York	H&R Block	Progressive
BellSouth	Hartford Financial Services	Prudential Financial
Boeing	Home Depot	SBC Communications
Capital One Financial	J.P. Morgan Chase	Schlumberger
Cendant	Johnson Controls	Simon Property Group
Chubb	KeyCorp	Sprint
Citigroup	Lowe's Companies	State Street
Coca-Cola	Marathon Oil	SunTrust Banks
Comerica	Masco	Target
Computer Associates	May Department Stores	Transocean
ConocoPhillips	MBIA	United Parcel Service
Costco Wholesale	Mellon Financial	Unocal
Dow Chemical	Merrill Lynch	Verizon Communications
E. I. du Pont de Nemours	MetLife	Wachovia
Emerson Electric	Microsoft	Wal-Mart Stores
Entergy	Moody's	Washington Mutual
Equity Office Properties	Morgan Stanley	XL Capital

EXPECTED TRENDS IN EXECUTIVE LONG-TERM INCENTIVE GRANT PRACTICES

What does the future hold for long-term incentive awards to executives? It is difficult to predict given the multitude of factors influencing program design, not to mention the considerable scrutiny executive compensation matters continue to receive. The following table, however, identifies potential future trends in executive long-term and stock-based grant practices, assuming that option expensing becomes mandatory and the new accounting rules are similar to those prescribed under FASB's Exposure Draft on Share-Based Payments.

Grant Type	Expected Future Use	Reason
Stock Options		
• <i>Performance-Vesting</i>	Increase	Provides a strong link between pay and performance, expense reversible if not earned (as long as not tied to market-based condition)
• <i>Price-vesting</i>	Increase	Discounted fixed expense at grant; expense not reversible if not earned
• <i>Discount</i>	Increase	Low cost relative to value delivered
• <i>Dividend Units</i>	Increase	Total shareholder return option; dividends included in grant value vs. additional expense today
• "Plain-Vanilla"	Decrease	High cost (fair value expense vs. none now) relative to perceived value; not reversible if out of money
• <i>Performance-Accelerated Vesting</i>	Decrease	No need for ultimate vest to preserve fixed expense
• <i>Restoration</i>	Decrease	Results in additional and uncontrollable costs, as each "reload" grant separately expensed
• <i>Incentive (ISOs)</i>	Decrease	Lack of tax deductibility increases expense by reciprocal of tax rate
• <i>Premium</i>	Flat	High cost relative to potential and "perceived" value
• <i>Indexed</i>	Flat	Strong linkage to performance; however, complicated design issues
Restricted Stock		
• <i>Time-Vesting</i>	Increase	Alignment with long-term shareholder interests and greater retention power than options, but weaker link to performance
• <i>PARSAPs</i>	Decrease	No longer necessary since performance-vesting has fixed expense
Performance Shares	Increase	Combines the performance element of stock options with the retention element of restricted stock; expense reversible if not earned (<i>if not market based condition</i>)
Performance Units	Increase	Strong ties to operational performance
SARs Payable in Shares	Increase	Expands the life of the share reserve since fewer shares are issued upon exercise and simplifies exercise by eliminating the need to finance the option exercise or utilize a cashless exercise provision (<i>Note that if pending deferred compensation legislation is passed, SARs may no longer be viable long-term incentive vehicles</i>)

EXECUTIVE LONG-TERM INCENTIVE GRANTS
SUMMARY OF GRANT USAGE BY COMPANY

	Adopted FAS 123	Appreciation		Full Value			
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
● = Continuing ▲ = New or prospective grant type ○ = Dropped							
3M		●			○		●
Abbott Laboratories		●		●			
ACE Limited		●		●			
Adobe Systems		●					
AETNA		●				●	
AFLAC		●					
Agilent Technologies		●					
Air Products & Chemicals		●		▲		●	
Albertson's		●		●			
Alcoa		●				▲	
Allergan		●					
Allstate	X	●		●			●
ALLTEL		●					●
Altria Group		○		▲			●
American Electric Power		●				●	
American Express	X	●		●			●
American International Group	X	●				●	
Amgen		●				▲	
AmSouth Bancorp		●					●
Anadarko Petroleum	X	●		●			
Analog Devices		●					
Anheuser-Busch Companies		●					
Anthem		●		●			●
Apache			▲	●		●	
Apollo Group		●					
Applied Materials		●					
Archer Daniels Midland		●		▲			
AT&T	X	●		●		●	
Automatic Data Processing		●		●			
Avon Products		●		●			●
Baker Hughes		●		●		●	
Bank of America	X	●		●			
Bank of New York	X	●		●		●	
Baxter International		●		▲			
BB&T		●					●
Becton Dickinson		●		▲		▲	
Bed Bath & Beyond		●					
BellSouth	X	●		●		●	
Best Buy		●		●			
Biomet		●					
Boeing	X			●		●	
Boston Scientific		●					

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		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
● = Continuing ▲ = New or prospective grant type ○ = Dropped							
Bristol-Myers Squibb		●		●		●	
Broadcom		●					
Burlington Northern Santa Fe		●		●			
Burlington Resources		●		●		●	
Campbell Soup		●		●		●	
Capital One Financial	X	●		●			
Cardinal Health		●					
Carnival		●		●			
Caterpillar		●					●
Cendant	X	○		●			
Charles Schwab		●		▲	▲		▲
ChevronTexaco		●				●	
Chiron		●					
Chubb	X	●		●		○	
Cisco Systems		●					
Citigroup	X	●		●			
Clear Channel Communications		●		▲			
Clorox		●				●	
Coca-Cola	X	●		●			●
Coca-Cola Enterprises		●		●			
Colgate-Palmolive		●		●		●	
Comcast Holdings		●					
Comerica	X	●		●			●
Computer Associates International	X	●				▲	
ConAgra Foods		○		●		●	
ConocoPhillips	X	●		▲		●	
Consolidated Edison		●		●			
Corning		●		▲		▲	
Costco Wholesale	X	●					
Countrywide Financial		●		●			
CVS		●					●
Danaher		●					
Deere		●		▲			▲
Dell		●					▲
Devon Energy		●		▲			
Dominion Resources		●		●			
Dow Chemical	X	●		▲		●	
Duke Energy		●		○		▲	
E.I. du Pont de Nemours	X	●		▲		▲	
Eaton		●		●		●	
eBay		●					
Electronic Arts		●					

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	Adopted FAS 123	Appreciation		Full Value		
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares
● = Continuing ▲ = New or prospective grant type ○ = Dropped						
Electronic Data Systems		●		●		
Eli Lilly		●		●		
EMC		●			▲	
Emerson Electric	X	●		●		●
Entergy	X	●				●
Equity Office Properties	X	●		●		
Exelon		●		●		●
ExxonMobil	X			●		●
Fannie Mae	X	●				●
Federated Dept Stores		●				▲
FedEx		●		●		●
Fifth Third Bancorp		●				
First Data		●				●
FirstEnergy		●		●		●
Ford Motor	X	●				●
Forest Laboratories		●				
Fortune Brands		●				●
FPL Group		●		●		●
Franklin Resources		●		●		
Gannett		●				
Gap		●				
General Dynamics		●		●		
General Electric	X	●	▲	▲		●
General Mills		●		●		
General Motors	X	●				●
Genzyme		●				
Gillette		●				
Golden West Financial		●				
Goldman Sachs Group	X	●		●		
Guidant		●		●		
H&R Block	X	●		●		
Halliburton		●		●		●
Harley-Davidson		●				
Hartford Financial Services	X	●				▲
HCA		●		●		
H.J. Heinz		●		●		▲
Hershey Foods		●				●
Hewlett-Packard		●		●		▲
Home Depot	X	●		●		●
Honeywell International		●		●		▲
Illinois Tool Works		●		●		
Ingersoll-Rand		●		●		●

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	Adopted FAS 123	Appreciation		Full Value			
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
		● = Continuing ▲ = New or prospective grant type ○ = Dropped					
Intel		●					
International Business Machines		●		●		●	
International Game Technology		●					
International Paper		○		▲		●	
J. P. Morgan Chase	X	●	▲	●			
Johnson & Johnson		●					
Johnson Controls	X	●		●			●
Kellogg		●		●			●
KeyCorp	X	●		●	●		
Kimberly-Clark		●		●			
KLA-Tencor		●					
Kohl's		●					
Kroger		●		●			
Lehman Brothers Holdings		●		●			
Lexmark International		●					●
Limited Brands		●					
Linear Technology		●					
Lockheed Martin		●					●
Loews Corp		●					
Lowe's Cos	X	●		▲			
Lucent Technologies		●					▲
M & T Bank		●					
Marathon Oil	X	●	●	●		●	
Marriott International		●		●			
Marsh & McLennan		●		●			
Masco	X	●	●	●			
Maxim Integrated Products		●					
May Department Stores	X	●		●	●		●
MBIA	X	●		●			●
MBNA		●		●			
McDonald's		●		▲			●
Mcgraw-Hill		●				●	
Medtronic		●		●		●	
Mellon Financial	X	●		●	●		
Merck		●		▲		▲	
Merrill Lynch	X	●	▲	●			
MetLife	X	●					●
Micron Technology		●					
Microsoft	X	○		▲		▲	
Moody's	X	●		▲			
Morgan Stanley	X	●		●			
Motorola		●					●

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	Adopted FAS 123	Appreciation		Full Value			
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
● = Continuing ▲ = New or prospective grant type ○ = Dropped							
National City	X	●		●			●
Newmont Mining		●		●			○
Nextel Communications		●					●
Nike		●				●	●
Northern Trust		●		●			
Northrop Grumman		●				●	
Occidental Petroleum		●		●		●	
Omnicom Group		●		●		●	
Oracle		●					
Paccar	X	●					●
Paychex		●					
PepsiCo	X	●					●
Pfizer		●		●		●	
PG&E		●		●			●
Pitney Bowes		●		▲			●
PNC Financial Services	X	●		●		●	
PPG Industries		●				●	
Praxair		●					
Principal Financial	X	●		▲		○	
Procter & Gamble	X	●					●
Progress Energy		●		●		●	
Progressive	X	○		▲		▲	
Prudential Financial	X	●		▲		▲	○
Public Service Enterprise Group		●		▲		▲	
QUALCOMM		●					
Raytheon		●		●		▲	
Safeway		●		▲			
Sara Lee		●		●			
SBC Communications	X	○		○		●	
Schering-Plough		●		●		▲	▲
Schlumberger	X	●					
Sears, Roebuck		●		●		●	
Simon Property Group	X	○				●	
SLM		●		●			
Southern Co		●					
SouthTrust		●				●	
Southwest Airlines		●					
Sprint	X	●		●			
St. Jude Medical		●					
St. Paul Travelers		●		●			
Staples		●		▲	●		
Starbucks		●					

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	Adopted FAS 123	Appreciation		Full Value		
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares
		● = Continuing		▲ = New or prospective grant type		○ = Dropped
State Street	X	●				●
Stryker		●				
Sun Microsystems		●				
SunTrust Banks	X	●		▲		●
Symantec		●				
SYSCO		●				
Target	X	●				●
Texas Instruments		●				
Time Warner		●		▲		
TJX		●		▲	▲	●
Transocean	X	●		○		▲
Tribune		●				
TXU						●
Tyco International		●		●		
U. S. Bancorp		●		●	●	
Union Pacific		●		●		
United Parcel Service	X	●				▲
United Technologies		●				
UnitedHealth		●				●
Univision Communications		●				
Unocal	X	●		●		●
VERITAS Software		●				
Verizon Communications	X	●				▲
Viacom		●				
Wachovia	X	●		●		
Walgreen		●		●		
Wal-Mart Stores	X	●		●		
Walt Disney		●		●		●
Washington Mutual	X	●		●		●
Waste Management		●		▲		
Wells Fargo		●		●		
Weyerhaeuser		●				▲
W.M. Wrigley Jr.		●		●		●
Wyeth		●				●
Xerox		●		●		
Xilinx		●				
XL Capital	X	●		●		
Yahoo!		●		▲	▲	
Yum! Brands		●				
Zimmer Holdings		●				

APPENDIX: CLASSIFICATION OF GRANT TYPES

GRANT TYPE CLASSIFICATIONS

For purposes of this report, grant types are classified according to how value is delivered to the recipient, differentiating between “appreciation” grants and “full-value” grants, as summarized below:

Appreciation Grants:

- Stock Options
- Stock Appreciation Rights (SARs)

Full-Value Grants:

- Performance Units
- Performance Shares
- Restricted Stock
- Performance Accelerated Restricted Stock Award Plans (PARSAPs)

Appreciation grants typically have no intrinsic value at the time of grant and depend upon the appreciation of a company’s stock price to deliver value to the recipient. Full-value grants, on the other hand, have value at the time of grant and may either increase or decrease in value depending on company performance and/or subsequent changes in stock price. Formula-value grants use financial measures instead of stock price to determine value and may be either an appreciation grant or a full-value grant.

Definitions for each of the above grant types, as well as other grant type variations, appear on the following pages of this *Appendix*.

APPRECIATION GRANTS

Stock Options are rights to purchase shares of company stock at a specified price over a stated period, usually ten years or less. Typically, the option price is 100% of market value at the time of grant, but several variations of this “plain-vanilla” type option are frequently used in practice:

- **Performance-Accelerated Stock Options (“PASOPs”)** are options that have a set vesting schedule, but may be exercised earlier if specified performance criteria are met, e.g., attaining specific stock price goals. Options with performance-accelerated vesting provisions eventually become exercisable later in their option term regardless of attaining the performance goals.
- **Performance-Vesting Stock Options** are considered to have “vesting with teeth”, because the options are forfeited if predetermined performance criteria are not met prior to or by the end of the option term.
- **Premium Stock Options** are options that have an exercise price *above* market value at the time of grant.
- **Discount Stock Options** are options that have an exercise price *below* market value at the time of grant.
- **Indexed Stock Options** are options that have an exercise price that may fluctuate above or below market value at grant, depending on the company's stock price performance relative to a specified index or the movement of the index itself. Indexed options differ from performance options in that the exercise price of indexed options typically remains variable until the option is exercised.

Stock Appreciation Rights (“SARs”) are rights to receive the increase between the grant price and market price of the company stock. This survey covers three types of market-based SARs:

- **Tandem SARs** are rights to receive the gain on a stock option in lieu of exercising the option, with the exercise of one canceling the other.
- **Freestanding SARs** are rights to receive the gain on a “phantom” stock option. Freestanding SARs are granted independently from stock options and, therefore, the exercise of the SAR does not cancel any outstanding stock options.
- **Additive SARs** are rights granted in addition to a stock option. In most cases, the exercise of the underlying option triggers the SAR payment and the two are paid simultaneously (unlike tandem SARs where the exercise of the stock option will cancel the SAR payment and vice versa). Additive SARs are typically used to offset income taxes on the related stock option gain, as well as the tax on the SAR payment.

APPENDIX: DEFINITION OF GRANT TYPES

FULL-VALUE GRANTS

Performance Units are grants of cash or dollar-denominated units whose payment or value is contingent on performance against predetermined objectives over a multi-year period of time. Actual payouts may be in cash or stock.

Performance Shares are grants of actual shares of stock or stock “units” whose payment is contingent on performance as measured against predetermined objects over a multi-year period of time, and differ from performance units in that the value paid fluctuates with stock price changes, as well as performance against objectives. The payout may be settled in cash or stock.

Restricted Stock consists of grants of actual shares of stock or stock “units” subject to restrictions and risk of forfeiture until vested by continued employment. Typically, dividends or dividend equivalents are paid during the restriction period, either currently or reinvested, and subject to the same restrictions and risk of forfeiture.

Performance-Accelerated Restricted Stock Award Plans (“PARSAPs”), also known as time-accelerated restricted stock award plans (“TARSAPs”), are grants of restricted stock that may vest early upon attainment of specified performance objectives. Otherwise, a time-vesting schedule remains in effect.

FORMULA-VALUE GRANTS

Formula-Value Grants are rights to receive value based on a formula using financial measures rather than the market value of company stock, e.g., book value per share. Final value delivered is either the appreciation over the initial grant value and the value of the grant at exercise, like a SAR, or the full value of a formula-derived “share,” resembling restricted stock.

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