

FREDERIC W. COOK & CO., INC.

DIRECTOR COMPENSATION:

NASDAQ 100 *vs* NYSE 100

*Non-Employee Director Compensation  
at the 100 Largest NASDAQ and  
100 Largest New York Stock Exchange Companies*

SEPTEMBER 2003

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Recent corporate scandals at large companies such as Enron and Tyco have tainted investor confidence in corporate America. This view not only relates to the executives at the helm of the largest U.S. companies, but also to their directors, whose responsibility is to protect shareholders from such occurrences. As a result, a variety of organizations including governmental bodies, national stock exchanges, and institutional investor and business groups have established new legislation, rules, and guidelines in an attempt to increase corporate governance standards and restore investor confidence. The pursuit of these goals has ultimately led to an increase in directors' roles and responsibilities, the time they devote to their duties, and the overall risks associated with board service. Inevitably, the result has been an evolution in the way that directors are being compensated.

This report compares the directors' compensation programs of the 100 largest companies listed on each of the two major stock exchanges, the NASDAQ and the New York Stock Exchange ("NYSE"). It serves as a follow-up to our second annual report on the director compensation practices and pay levels at the 100 largest NASDAQ companies that was released in February 2003. The result is an analysis of directors' compensation programs within the current changing landscape of corporate governance in America among the largest high technology companies (i.e., the NASDAQ) and the largest, more traditional, general industry companies listed on the NYSE.

The companies in this report are the 100 largest companies in each index based on each company's market-capitalization as of April 30, 2003. Summary financial data for the companies from each index are shown below:

	NASDAQ 100			NYSE 100		
	Revenues (\$ Millions)	Market Capitalization as of 4/30/03 (\$ Millions)	1-Year Total Shareholder Return as of 4/30/03	Revenues (\$ Millions)	Market Capitalization as of 4/30/03 (\$ Millions)	1-Year Total Shareholder Return as of 4/30/03
75th Percentile	\$3,565	\$9,141	6.0%	\$59,140	\$39,608	0.5%
Average	\$4,077	\$13,650	-6.8%	\$52,544	\$33,579	-8.6%
Median	\$1,338	\$4,526	-7.8%	\$31,087	\$23,863	-7.0%
25th Percentile	\$831	\$2,929	-30.3%	\$20,185	\$10,945	-21.0%

Information on each company's director compensation programs was collected from proxy statements issued through May 1, 2003. Thus, the compensation data compared in this report are representative of current practices and trends in directors compensation.

There are several elements of compensation that are traditionally found among the companies in our study. This report analyzes each element in the aggregate as well as individually, paying particular attention to the unique way that the NASDAQ and NYSE companies utilize them within their programs. These pay elements are as follows:

- Annual cash retainer
- Board meeting fees
- Committee annual retainer and meeting fees
- Committee chair annual retainer and chair meeting fees
- Present value of equity compensation (i.e., stock options, restricted stock, deferred stock, etc.)

## METHODOLOGY

In order to properly compare the different programs found among the NASDAQ and NYSE companies, we selected standard assumptions in calculating total compensation. These include a fixed number of Board and committee meetings during the year as well as a common grant date for which to calculate the value of equity compensation. Our assumptions are as follows:

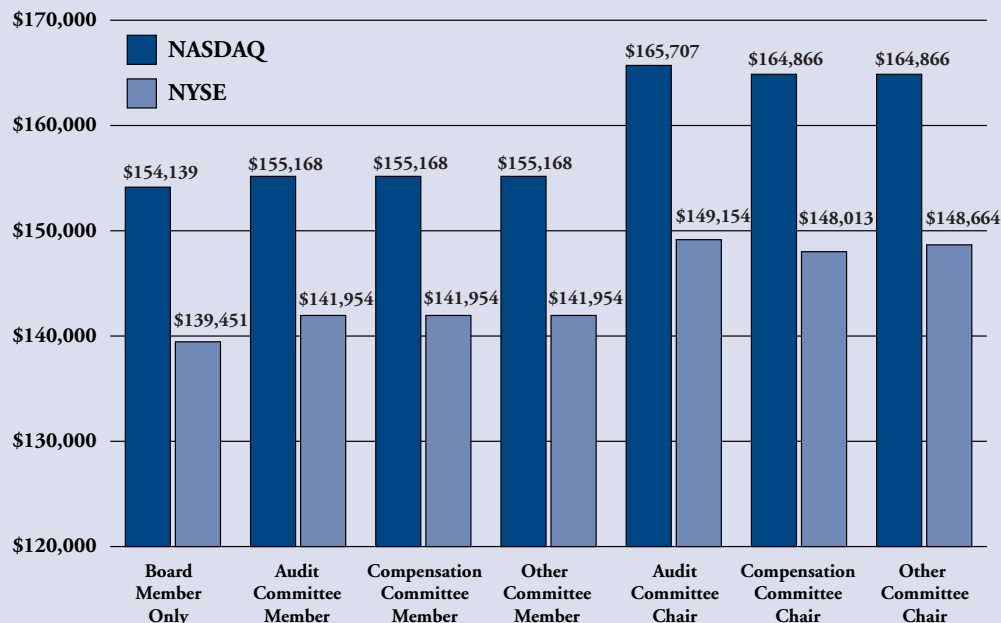
- Each board meets **eight** times a year
- Each committee of the Board meets **five** times a year
- The assumed date of grant for all equity compensation is **April 30, 2003**. Thus, all equity compensation is valued based on the closing stock price on this date
- Stock options are valued at **one-half (50%)** of fair market value on the grant date for the NASDAQ companies and at **one-third (33.3%)** of fair market value for the NYSE companies. These values are used as an estimate of the values that would be generated using the Black-Scholes option pricing model, with the differences in the two valuations attributable to the higher volatility typically found among NASDAQ companies (i.e., companies with higher stock price volatility have higher Black-Scholes values)
- Full-value awards such as restricted stock, deferred stock, and outright stock grants with no restrictions are valued based on the closing stock price on the grant date (i.e., as of 4/30/03)

## TOTAL COMPENSATION

The first comparison is with respect to the total compensation paid to directors with different roles on their Boards. In many cases, directors that serve on different committees of the Board are compensated differently even though they are on the same Board. For example, those directors that serve on the Audit committee may receive a higher level of compensation than a director on the Nominating committee. In order to determine the extent of the variation between committees, we have selected the following different types of director service and calculated the total compensation for each:

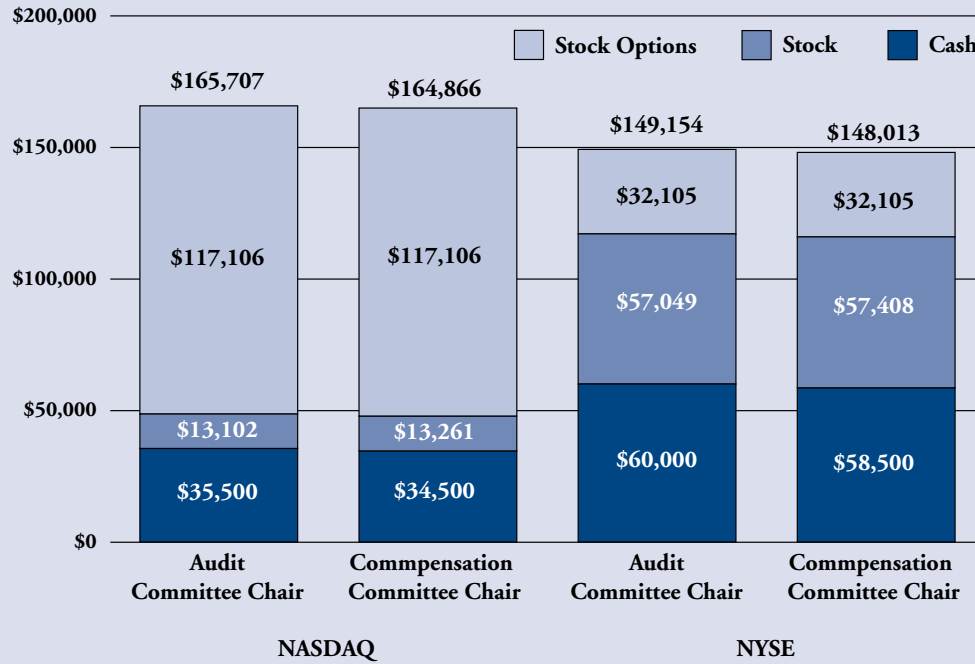
- **Board member only** – A member of the Board that does not serve on any committees
- **Audit Committee Member** – A member of the Board, who also serves as a *member* of the Audit committee. This director serves on no other board committees.
- **Audit Committee Chair** – Like the “Audit Committee Member” above, but this director is the chair of the Audit committee (instead of a regular member).
- **Compensation Committee Member** – A member of the Board, who also serves as a *member* of the Compensation committee. This director serves on no other board committees.
- **Compensation Committee Chair** – Like the “Compensation Committee Member” above, but this director is the chair of the Compensation committee (instead of a regular member).
- **Other Committee Member** – A member of the Board, who also serves as a *member* of a committee other than the Audit or Compensation committee. Often this committee is the Nominating/Governance committee, the Finance committee, etc. This director serves on no other board committees.
- **Other Committee Chair** – Like the “Other Committee Member” above, but this director is the chair of the committee (instead of a regular member).

The following table shows **median** total compensation values for each type of director for the NASDAQ companies and NYSE companies. As shown, target compensation for the NASDAQ is higher (10% on average), primarily because of higher option values attributed to the grants at these companies (see next page for additional detail).



## CASH VS. EQUITY

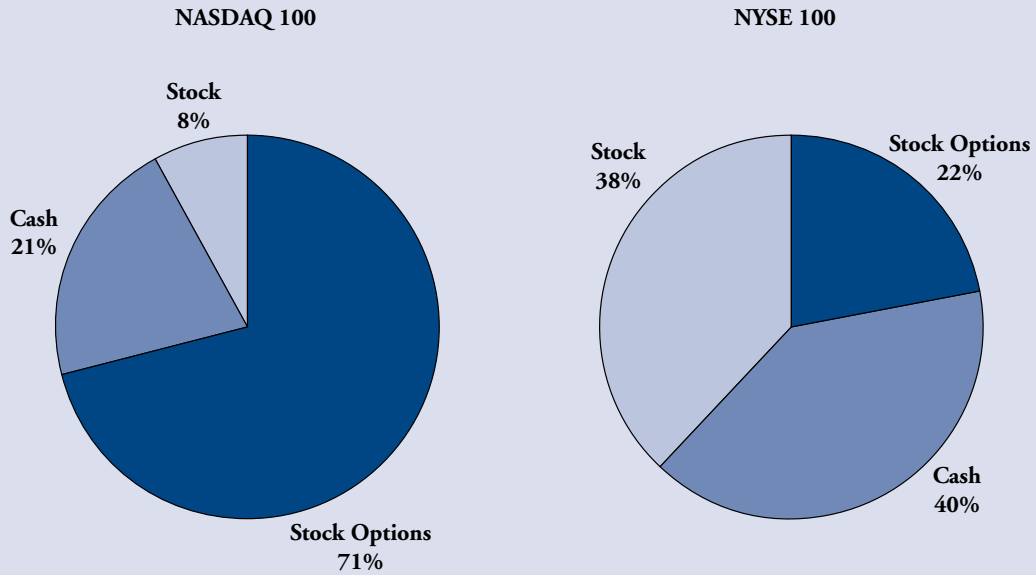
Total compensation is higher at the NASDAQ companies than that at the NYSE companies, primarily due to higher option present values. In addition, the NYSE companies deliver less potential value in the form of stock options and more in the form of cash and full-value stock. The value of cash, stock, and stock options at the **median** for two types of directors (i.e., Audit committee chair and Compensation committee chair) is shown below:



## CASH VS. EQUITY AUDIT COMMITTEE CHAIRMAN

The charts below show the **median** mix of compensation elements (i.e., cash, stock, and stock options) for an **Audit committee chair** at the NASDAQ and NYSE companies.

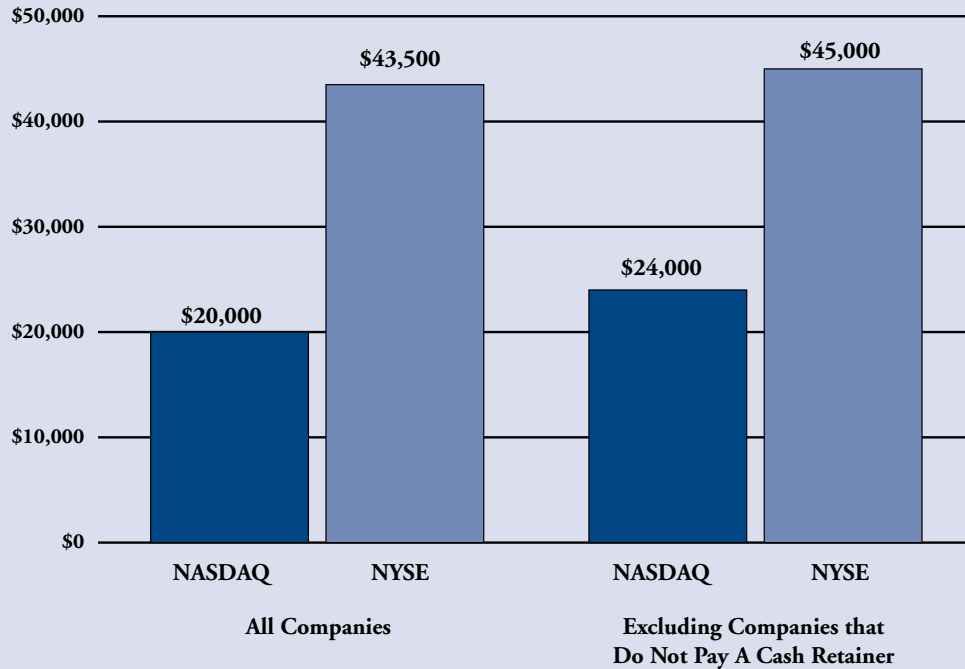
Stock option values represent 71% of total compensation for Audit committee chairs at the NASDAQ companies, whereas the NYSE companies deliver only 22% of total compensation in the form of options. Audit committee chairs at the NYSE companies are paid mostly in cash and full-value stock.





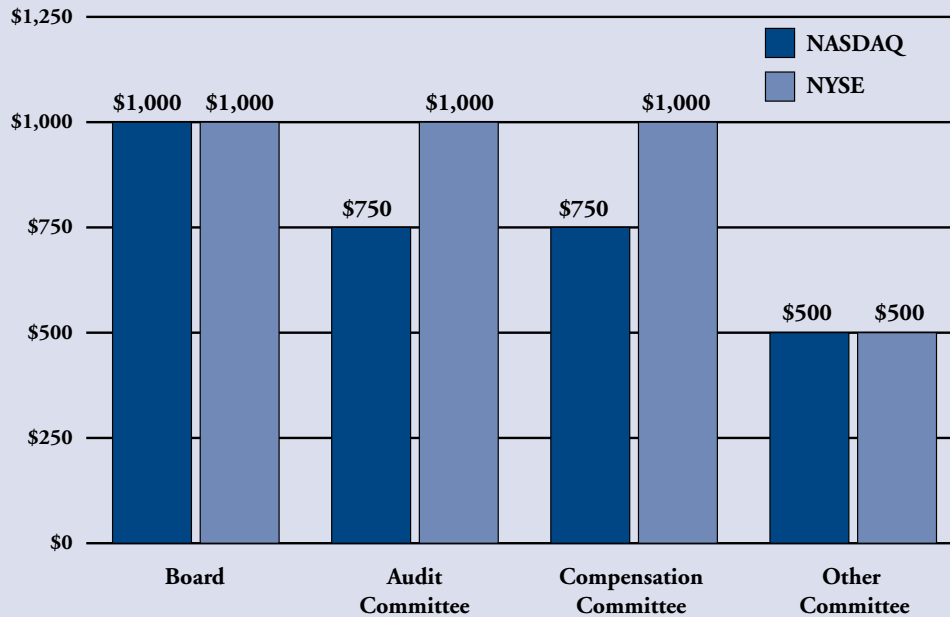
## BOARD CASH RETAINERS

The majority of companies in the study pay an annual cash retainer to directors. In total, 80 NASDAQ and 94 NYSE companies pay this form of compensation. The following chart shows **median** annual cash retainers for all of the companies in the study (i.e., including zeros for those that do not pay a retainer), as well as for only those that pay this form of compensation.



## BOARD/COMMITTEE MEETING FEES

Greater than 50% of the companies on each exchange pay a meeting fee for either Board or committee attendance, with a slightly higher number of NASDAQ companies paying such fees. The **median** Board and committee meeting fees for all of the companies in the study (i.e., including zeros for those companies that do not pay meeting fees) is shown below. Board meeting fees are the same, while meeting fees for committee service are higher at the NYSE companies.



Summary statistics for only those companies paying meeting fees are shown below:

	Median		Average		No. of Companies	
	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ	NYSE
Board	\$1,500	\$1,500	\$2,110	\$1,423	64	53
Audit Committee	\$1,000	\$1,200	\$1,308	\$1,281	59	51
Compensation Committee	\$1,000	\$1,200	\$1,210	\$1,281	57	51
Other Committee	\$1,000	\$1,200	\$1,166	\$1,287	55	50

## COMMITTEE MEMBER ANNUAL RETAINERS

In addition to (or in lieu of) meeting fees for committee attendance, some companies pay an annual retainer for committee service. The following table shows median and average annual retainers paid for committee service. These retainers are for regular committee service only and do not include additional retainers paid for chairing a committee.

	Median		Average		No. of Companies	
	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ	NYSE
Audit Committee	\$10,000	\$8,100	\$32,532	\$9,967	14	24
Compensation Committee	\$12,500	\$7,000	\$30,536	\$8,484	11	19
Other Committee	\$10,000	\$7,200	\$34,266	\$7,541	9	17

The higher values shown for the NASDAQ companies are attributable to five of such companies paying committee retainers in the form of stock options that have higher potential values than the committee retainers delivered in cash at the NYSE companies.

Based on these statistics, it appears that NYSE companies delivering this form of compensation pay the highest amount to the members of the Audit committee. The same pattern does not generally exist at the NASDAQ. In addition, it is evident by the number of companies using this form of compensation that most companies on both the NASDAQ and NYSE prefer to compensate their committee members on a per meeting basis.

## ADDITIONAL COMMITTEE CHAIR RETAINER / FEES

To recognize the additional duties involved in chairing a committee, companies will often pay separate or higher compensation versus that paid to regular committee members. Such additional compensation typically takes the form of an annual retainer or additional meeting fee. The table below shows the additional compensation paid to committee chairs at NASDAQ and NYSE companies for only those companies that pay this additional form of compensation.

This analysis only shows compensation *above* that paid for regular committee service (e.g., if a regular committee member receives an annual retainer of \$5,000 and the chair receives an annual retainer of \$10,000, then *only* the additional \$5,000 above that paid for regular service is reflected).

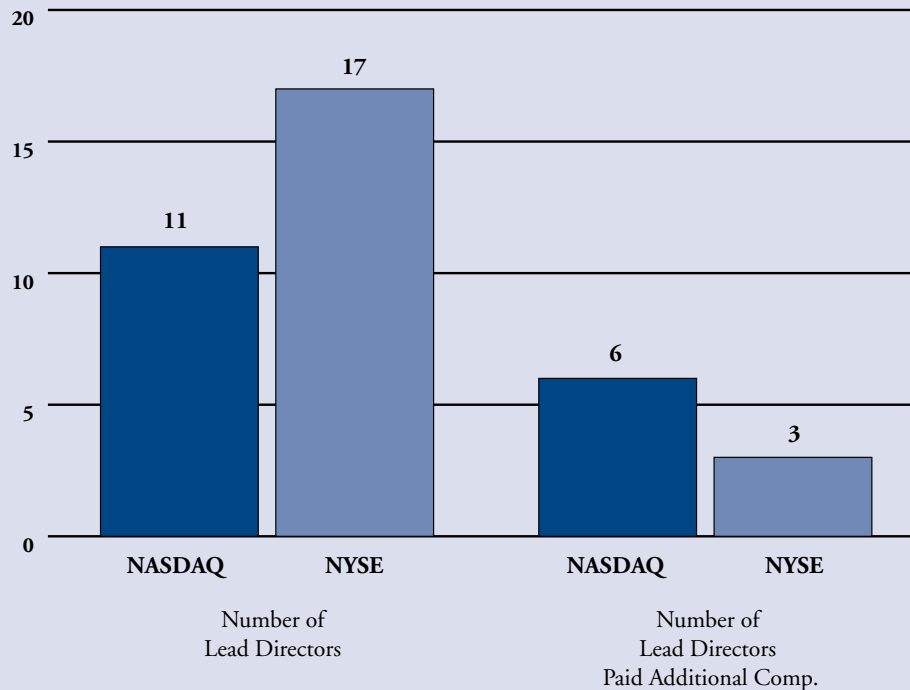
	Median		Average		No. of Companies	
	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ	NYSE
<i>Additional Chair Retainers</i>						
Audit Committee	\$5,000	\$7,000	\$37,102	\$7,902	36	79
Compensation Committee	\$5,000	\$5,000	\$31,675	\$7,056	35	76
Other Committee	\$5,000	\$5,000	\$27,379	\$7,083	29	72
<i>Additional Meeting Fees</i>						
Audit Committee	\$1,000	\$500	\$2,152	\$757	11	7
Compensation Committee	\$500	\$500	\$2,596	\$725	7	8
Other Committee	\$500	\$500	\$2,596	\$757	7	7

For those companies that pay additional compensation to committee chairs, the Audit committee chair is generally paid at higher level than the chair of other committees. In addition, most companies pay an additional annual retainer versus additional meeting fees, especially among NYSE companies.

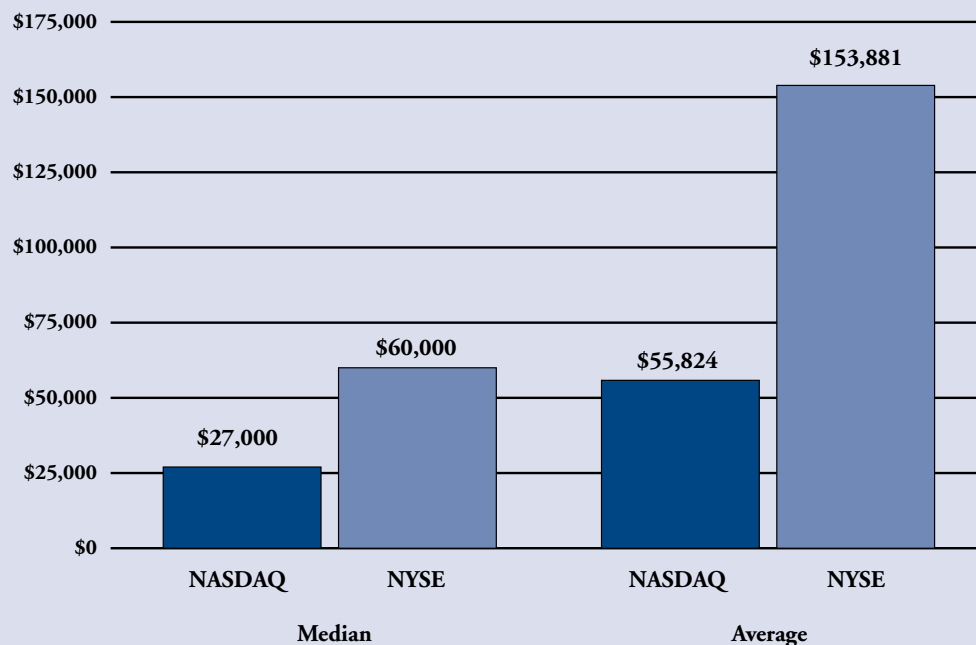
Similar to the regular committee member annual retainers, some NASDAQ companies deliver this form of compensation in stock options with high present values and thus, the average committee chair retainers are significantly larger than the NYSE retainers, which are generally delivered in cash.

## LEAD DIRECTOR COMPENSATION

In order to reinforce Board independence, some companies have established the role of “Lead Director,” often where the Chairman of the Board is also the Chief Executive Officer. The following table shows the prevalence of Lead Directors among the NASDAQ and NYSE companies, and the prevalence of those that pay additional compensation to directors serving in this role.

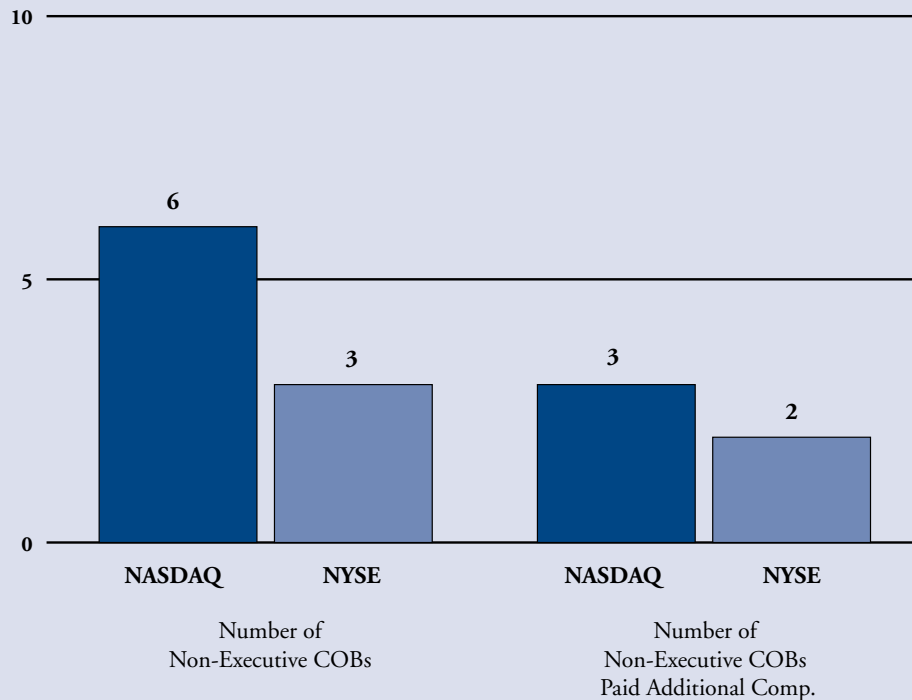


Almost all companies that pay additional compensation to Lead Directors on the NASDAQ do so in cash, whereas two out of three NYSE companies pay their Lead Directors through an additional option grant. Median and average Lead Director compensation for only those paying such compensation is shown below:

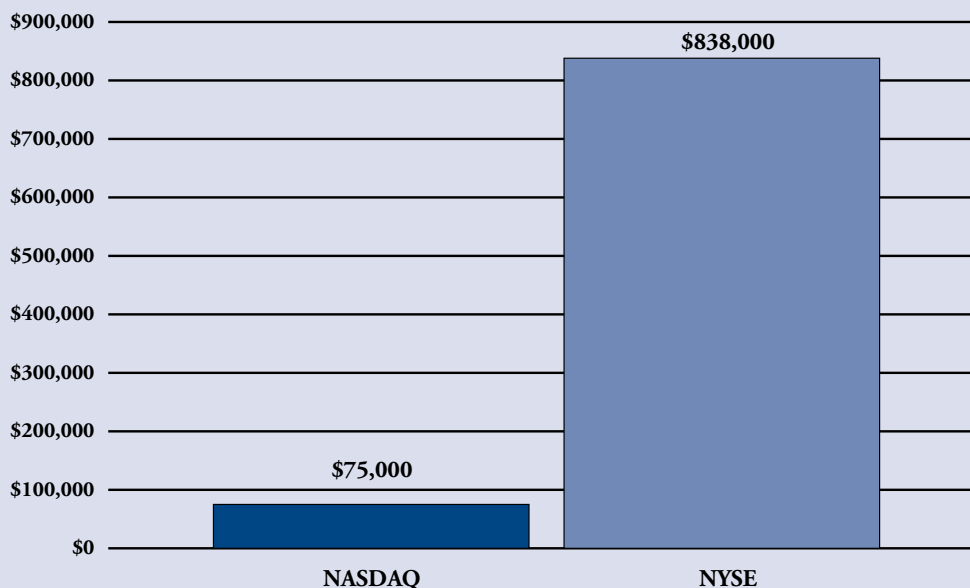


## NON-EXECUTIVE CHAIRMAN COMPENSATION

Some companies have also established a separate non-executive Chairman of the Board (“COB”) to maintain the independence of the Board. The following table shows the prevalence of non-executive Chairmen among the NASDAQ and NYSE companies, and the prevalence of those that pay additional compensation to directors serving in this role. We have not included those Chairmen that have previously served as Chief Executive Officer of the related company.



The **median** additional compensation paid for serving as Chairman of the Board is shown below, including only those companies that deliver additional pay. Three of the five pay in the form of cash, and the remaining two in the form of stock options. Additional Chairman’s compensation at the NASDAQ companies ranges from \$50,000 to \$434,000, and from \$476,000 to \$1.2 million at the NYSE companies.



## TRENDS IN DIRECTORS' COMPENSATION

Our review of this years' proxy statements indicates that director's compensation programs are evolving. The following are current and emerging trends in directors' pay, some of which are evidenced by the data in this report:

- Compensation has increased and is expected to increase further in 2004 as companies continue to review their programs and make changes in response to labor market and corporate governance considerations.
- Outside the regular programs (i.e., for board service only), there is a trend toward greater individual differentiation between directors at the same companies based on their individual roles. Specifically, additional compensation is being paid for serving on and chairing board committees to recognize increased responsibilities and time spent, especially for the Audit committee. With respect to committee chair fees, an evolving rule of thumb is for the Audit committee chair to receive the equivalent of 3x the regular meeting fee or retainer for regular Audit committee service, and for the Compensation committee chair to receive 2x.
- Where committee meeting fees have traditionally trailed board meeting fees, they are now being set at an equivalent level to recognize the additional work being done at the committees.
- Options are still the most prevalent equity award, particularly with the NASDAQ companies, but they are being rapidly replaced with stock grants to promote *real* stock ownership among directors.
- Directors are more often being given the opportunity to acquire stock in lieu of cash. For example, directors may elect to receive stock (sometimes with a premium) instead of their cash retainers, with the shares delivered either currently or at the end of board service.
- Vesting periods on options and other equity compensation are being shortened (e.g., immediate or one-year vesting) in response to investor concerns that service-contingent compensation potentially taints directors' independence.
- Post-termination option exercise periods (e.g., three years is typical) following retirement, death and disability are being extended to neutralize stock market timing.
- Guidelines for *real* share ownership are being imposed, with the most common guideline expressed as a multiple of retainer, typically in the range of 3x-5x annual cash retainer. Alternatively, guidelines may take the form of a retention ratio, where a percentage of after-tax shares must be held for one year after option exercise or even up to one-year after retirement from the Board. This later approach is a growing trend for executive programs, but is not expected to be the norm for director programs.

ADC TELECOMMUNICATIONS, INC.	EXPRESS SCRIPTS, INC.	NOVELLUS SYSTEMS, INC.
ADOBE SYSTEMS INCORPORATED	FASTENAL COMPANY	NVIDIA CORP.
ALTERA CORP.	FIFTH THIRD BANCORP	ORACLE CORP.
AMAZON.COM, INC.	FIRST HEALTH GROUP CORP.	PACCAR INC.
AMERICAN POWER CONVERSION CORP.	FISERV, INC.	PANAMSAT CORP.
AMGEN INC.	FLEXTRONICS INTERNATIONAL LTD.	PATTERSON DENTAL COMPANY
APOLLO GROUP, INC.	GENTEX CORP.	PATTERSON-UTI ENERGY, INC.
APPLE COMPUTER, INC.	GENZYME CORP.	PAYCHEX, INC.
APPLIED MATERIALS, INC.	GILEAD SCIENCES, INC.	PEOPLESOFT, INC.
BEA SYSTEMS, INC.	HENRY SCHEIN, INC.	PETSMART, INC.
BED BATH & BEYOND INC.	HUMAN GENOME SCIENCES, INC.	PIXAR
BIOGEN, INC.	ICOS CORP.	PUBLIX SUPER MARKETS INC
BIOMET, INC.	IDEC PHARMACEUTICALS CORP.	QLOGIC CORP.
BROADCOM CORP.	INTEL CORP.	QUALCOMM INCORPORATED
BROCADE COMMUNICATIONS SYSTEMS	INTERACTIVECORP	RF MICRO DEVICES, INC.
C.H. ROBINSON WORLDWIDE, INC.	INTUIT INC.	ROSS STORES, INC.
CDW CORP.	INVITROGEN CORP.	SANMINA-SCI CORP.
CEPHALON, INC.	JDS UNIPHASE CORP.	SIEBEL SYSTEMS, INC.
CHIRON CORP.	JUNIPER NETWORKS, INC.	SIGMA-ALDRICH CORP.
CIENA CORP.	KLA-TENCOR CORP.	SMURFIT-STONE CONTAINER CORP.
CINTAS CORP.	LAMAR ADVERTISING COMPANY	SOUTHTRUST CORP
CISCO SYSTEMS, INC.	LINCARE HOLDINGS INC.	STAPLES, INC.
CITRIX SYSTEMS, INC.	LINEAR TECHNOLOGY CORP.	STARBUCKS CORP.
COMCAST CORP.	MAXIM INTEGRATED PRODUCTS, INC.	SUN MICROSYSTEMS, INC.
COMPUWARE CORP.	MEDIMMUNE, INC.	SYMANTEC CORP.
COMVERSE TECHNOLOGY, INC.	MERCURY INTERACTIVE CORP.	SYNOPSIS, INC.
COSTCO WHOLESALE CORP.	MICROCHIP TECHNOLOGY INC.	TELLABS, INC.
DELL INC.	MICROSOFT CORP.	VERISIGN, INC.
DENTSPLY INTERNATIONAL INC.	MILLENNIUM PHARMACEUTICALS, INC.	VERITAS SOFTWARE CORP.
DOLLAR TREE STORES, INC.	MOLEX INCORPORATED	WHOLE FOODS MARKET, INC.
EBAY INC.	MONSTER WORLDWIDE INC.	XILINX, INC.
ECHOSTAR COMMUNICATIONS CORP.	NETWORK APPLIANCE, INC.	YAHOO! INC.
ELECTRONIC ARTS INC.	NEXTEL COMMUNICATIONS, INC.	
EXPEDITORS INTERNATIONAL OF WA	NORTHERN TRUST CORP	



## 100 LARGEST NYSE COMPANIES

3M CO	EMERSON ELECTRIC CO	MEDTRONIC INC
ABBOTT LABORATORIES	EXELON CORP	MERCK & CO
AFLAC INC	EXXON MOBIL CORP	MERRILL LYNCH & CO
ALCOA INC	FANNIE MAE	METLIFE INC
ALLSTATE CORP	FEDERAL HOME LOAN MORTG CORP	MORGAN STANLEY
ALTRIA GROUP INC	FEDEX CORP	MOTOROLA INC
AMERICAN EXPRESS	FIRST DATA CORP	NATIONAL CITY CORP
AMERICAN INTERNATIONAL GROUP	FLEETBOSTON FINANCIAL CORP	PEPSICO INC
ANHEUSER-BUSCH COS INC	FORD MOTOR CO	PFIZER INC
AOL TIME WARNER INC	FOREST LABORATORIES -CL A	PROCTER & GAMBLE CO
AT&T WIRELESS SERVICES INC	GANNETT CO	PRUDENTIAL FINANCIAL INC
AUTOMATIC DATA PROCESSING	GENENTECH INC	SBC COMMUNICATIONS INC
BANK OF AMERICA CORP	GENERAL ELECTRIC CO	SCHERING-PLOUGH
BANK OF NEW YORK CO INC	GENERAL MOTORS CORP	SCHLUMBERGER LTD
BANK ONE CORP	GILLETTE CO	SLM CORP
BELLSOUTH CORP	GOLDMAN SACHS GROUP INC	SOUTHERN CO
BERKSHIRE HATHAWAY	HEWLETT-PACKARD CO	SYSCO CORP
BOEING CO	HOME DEPOT INC	TARGET CORP
BOSTON SCIENTIFIC CORP	HONEYWELL INTERNATIONAL INC	TEXAS INSTRUMENTS INC
BRISTOL MYERS SQUIBB	ILLINOIS TOOL WORKS	TYCO INTERNATIONAL LTD
CARDINAL HEALTH INC	INTL BUSINESS MACHINES CORP	U S BANCORP
CATERPILLAR INC	INTL PAPER CO	UNITED PARCEL SERVICE INC
CHEVRONTXACO CORP	J P MORGAN CHASE & CO	UNITED TECHNOLOGIES CORP
CITIGROUP INC	JOHNSON & JOHNSON	UNITEDHEALTH GROUP INC
CLEAR CHANNEL COMMUNICATIONS	KIMBERLY-CLARK CORP	VERIZON COMMUNICATIONS
COCA-COLA CO	KOHL'S CORP	VIACOM INC.
COLGATE-PALMOLIVE CO	KRAFT FOODS INC	WACHOVIA CORP
CONOCOPHILLIPS	LIBERTY MEDIA CORP	WALGREEN CO
COX COMMUNICATIONS	LILLY (ELI) & CO	WAL-MART STORES
DISNEY (WALT) CO	LOCKHEED MARTIN CORP	WASHINGTON MUTUAL INC
DOMINION RESOURCES INC	LOWES COS	WELLS FARGO & CO
DOW CHEMICAL	MARSH & MCLENNAN COS	WYETH
DU PONT (E I) DE NEMOURS	MBNA CORP	
EMC CORP/MA	MCDONALDS CORP	

**Frederic W. Cook & Co., Inc.** provides management compensation consulting services to business clients. Formed in 1973, our firm has served over 1,400 corporations in a wide variety of industries from our offices in New York, Chicago, and Los Angeles. Our primary focus is on performance-based compensation programs that help companies attract and retain key employees, motivate and reward them for improved performance, and align their interests with shareholders. Our range of consulting services encompasses the following:

- Compensation Committee Advisor
- Total Compensation Reviews
- Specific Plan Reviews
- Competitive Comparisons
- Directors' Remuneration
- Board/Committee Governance Matters
- Ownership Programs
- Incentive Grant Guidelines
- Performance Measurement
- Change-in-Control Protection
- Strategic Incentives
- Mergers & Acquisitions
- Restructuring Incentives
- Stock Option Enhancements
- Recruitment/Retention Incentives
- All-Employee Incentive Plans

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