

October 23, 2009

STOCK OWNERSHIP GUIDELINES

Prevalence and Design of Executive and Director Ownership Guidelines Among the Top 250 Companies

EXECUTIVE SUMMARY

Stock ownership guidelines are a key component in companies' compensation programs, helping to ensure an alignment of executive and director interests with those of shareholders. In the early 1990's, concerns that increasing equity awards did not result in increased levels of stock ownership by executives led to the early adoption of stock ownership policies. The importance of these policies was then highlighted by the corporate scandals in 2002. These scandals, and the increased attention from investors that followed, served as a catalyst for additional companies to adopt ownership guidelines for both executives and directors. This impetus, coupled with the requirement to disclose existing stock ownership programs in proxy statements and other SEC requirements increasing transparency of compensation disclosure, has led to a continued increase in prevalence of stock ownership guidelines among the Top 250 companies.¹

The past year may prove to be another important year in the evolution of stock ownership guidelines and their prevalence among the Top 250 companies. The dramatic market decline has once again refocused investor attention on reinforcing alignment of interests between executives and directors and long-term shareholders. In addition, the fall in stock prices has affected executives' and directors' abilities to comply with stock ownership guidelines, encouraging companies to reexamine their policies.

As presented in this report, the Top 250 companies commonly employ value-based ownership guidelines under which the number of shares required to be owned fluctuates based on changes in stock prices. Such guidelines may now require a significantly higher number of shares to be owned, as share prices have fallen. Conversely, companies with fixed share guidelines may now require a lower dollar value to be held by their executives and directors. This suggests that retention and holding requirements ("retention approaches"), whether alone or in conjunction with traditional ownership guidelines, may increase in prevalence among companies with value-based or fixed share guidelines, as these requirements provide a process for meeting a guideline over time and can encourage accumulation of shares in excess of the guideline. While use of retention approaches has increased in prevalence, this increase may accelerate in the coming years as attention to this issue underscores the benefits of guidelines that tie equity compensation to an on-going increase in ownership.

¹ The Top 250 companies represent the largest U.S. companies in the Standard & Poor's 500 Index.

Overall prevalence of stock ownership guidelines, along with key findings from the Frederic W. Cook & Co. 2009 Stock Ownership Guidelines report are presented below:

- The prevalence of ownership guidelines for both executives and directors continues to increase among the Top 250 companies, with eighty-seven percent of companies disclosing formal stock ownership guidelines for executives and seventy-nine percent disclosing formal ownership guidelines for directors
- The majority of companies continue to use “traditional” ownership guidelines (i.e., multiple of compensation or fixed number of shares)
- However, there continues to be a trend toward replacing traditional ownership guidelines with a combination of traditional and retention-based guidelines
- For executives, thirty-two percent of companies with formal ownership guidelines incorporate a retention ratio. Twenty-three percent of these companies disclose a hold to or past retirement requirement
- For directors, sixteen percent of companies with formal ownership guidelines incorporate a retention ratio. Fifty-two percent of these companies disclose a hold to or past retirement requirement
- The median multiple of salary and multiple of retainer requirements are 5X and 4X for executives and directors, respectively
- The median value of CEO ownership requirements is \$5.7 million and the median time required to achieve such ownership is five years
- The median value of director ownership requirements is \$300,000 and the median time required to achieve such ownership is five years

The details underlying these findings are presented, along with additional analyses and information, on the following pages.

OVERVIEW AND BACKGROUND

This report presents information on formal stock ownership guidelines for executives and non-employee directors of the 250 largest U.S. companies in the Standard & Poor’s 500 Index. Selection of these companies was based on market capitalization, i.e., share price multiplied by total common shares outstanding as of February 28, 2009, as reported by Standard & Poor’s Research Insight.

The following topics are covered in this report in separate executive and director analyses:

- Prevalence of formal ownership guidelines
- Types and design features of ownership guidelines
- Value of required ownership for CEOs and directors
- Prevalence of formal ownership guidelines by economic sector

The information in this report is based on disclosure in company proxy statements, issued through July 31, 2009, and on company web sites.

METHODOLOGY

For purposes of this report, ownership guidelines are grouped into two categories: “traditional” approaches and “retention” approaches.

Traditional Approaches

Traditional approaches primarily include multiple of salary/retainer (value-based) and fixed share guidelines. For example, under multiple of salary guidelines, executives are expected to hold shares of company stock equal in value to a multiple of their base salary. Traditional approaches are simple to communicate to employees and directors but may fail to address effects of stock price fluctuation, as has generally been the case at companies over the past year.

Retention Approaches

Retention approaches may be grouped into two types: “retention ratios” and “holding periods.” Both retention ratios and holding periods generally express the ownership requirement as a percentage of the “profit shares” resulting from equity-based long-term incentives, which must be retained. Profit shares are the shares remaining after payment of the option exercise price and taxes owed at time of exercise, vesting of restricted stock or earnout of performance shares. Retention approaches are commonly used in combination with traditional ownership guidelines (e.g., seventy-five percent of profit shares must be retained until multiple of salary guidelines are met).

We differentiate retention approaches by the period of time a retention requirement is enforced. Retention ratios are enforced for an indefinite period of time (e.g., career or until multiple of salary guidelines are met). For example, we consider Yahoo! to use a retention ratio, as the company requires executive officers to retain all vested restricted shares until a fixed share guideline is met.

Holding periods are enforced for a specified period of time (e.g., three years after exercise of options). For example, General Electric, in addition to establishing multiple of salary guidelines, requires senior executive officers to hold all profit shares from the exercise of stock options for at least one year.

Hold To/Past Retirement

For purposes of this report, we define hold to/past retirement as a guideline that requires a retention ratio to be maintained until retirement or separation from the company. For example, ExxonMobil has a hold to retirement requirement for the most senior executives: fifty percent of restricted shares are required to be held until retirement. Wells Fargo has implemented a hold past retirement requirement for equity grants under which executives are now required to retain fifty percent of profit shares upon exercise of stock options and vesting of restricted share rights for one year following retirement.

Deferred Stock Units

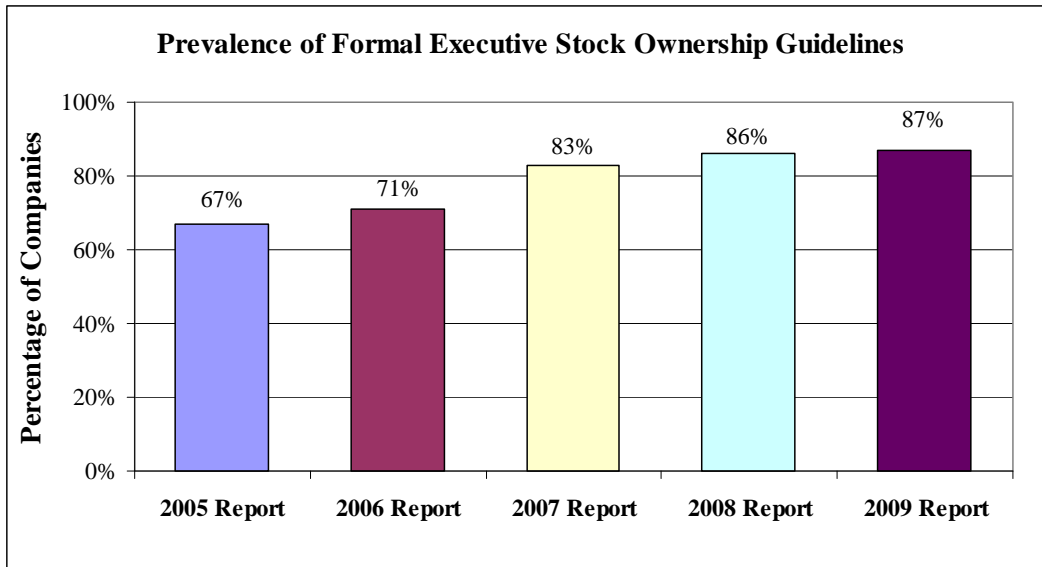
For purposes of this report, director compensation that is paid in deferred stock units that are not distributable until termination of board service or later are not considered to be formal ownership guidelines. Nonetheless, deferred stock units are equally effective as formal ownership guidelines at ensuring that directors acquire and hold significant amounts of company stock, arguably eliminating the need to implement formal ownership guidelines. Refer to the separate section on deferred stock units, presented on page 20, for further details.

Year-Over-Year Comparisons

To illustrate certain trends, this report compares executive stock ownership guidelines to the data contained in our 2005-2008 Top 250 reports on long-term incentive grant practices for executives. Director guidelines are compared to the 2004 Stock Ownership Guidelines report, as our 2005-2008 reports on director compensation have used a different sample (i.e., the NASDAQ 100 and NYSE 100 companies) to analyze stock ownership guideline prevalence. Note that comparisons to prior-year prevalence do not reflect a constant-company population, as inclusion in these reports varies depending on company size and recent corporate actions (such as mergers, acquisitions and bankruptcies). Of the companies in this year's report, eighteen percent were not in the 2008 Top 250 report, while thirty-three percent were not in the 2004 Stock Ownership Guidelines report, which may influence trend data. Finally, prior to 2007, disclosure of stock ownership guidelines was voluntary and the actual prevalence of ownership policies may have been higher than reported.

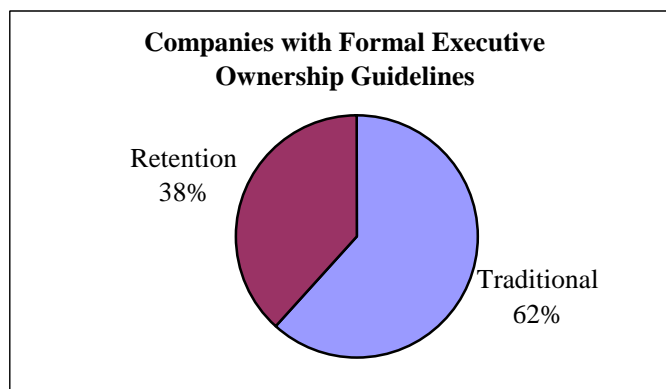
TYPES OF FORMAL EXECUTIVE OWNERSHIP GUIDELINES

Stock ownership guidelines for executives have increased in prevalence among the Top 250 companies every year since we published our 2005 Top 250 report. Eighty-seven percent of the Top 250 companies disclose formal ownership guidelines for their executives, representing a one percent increase from the 2008 Top 250 report and a twenty percent increase from the 2005 report. The rate of increase in prevalence of companies disclosing stock ownership policies has slowed, largely because companies, since 2007, have been required to disclose if they have such policies and the vast majority of companies in the Top 250 have adopted ownership policies. However, the prevalence of executive stock ownership guidelines is expected to continue to increase, albeit at a slower rate than in prior years, as ownership guidelines have been accepted as a corporate governance “best practice.”

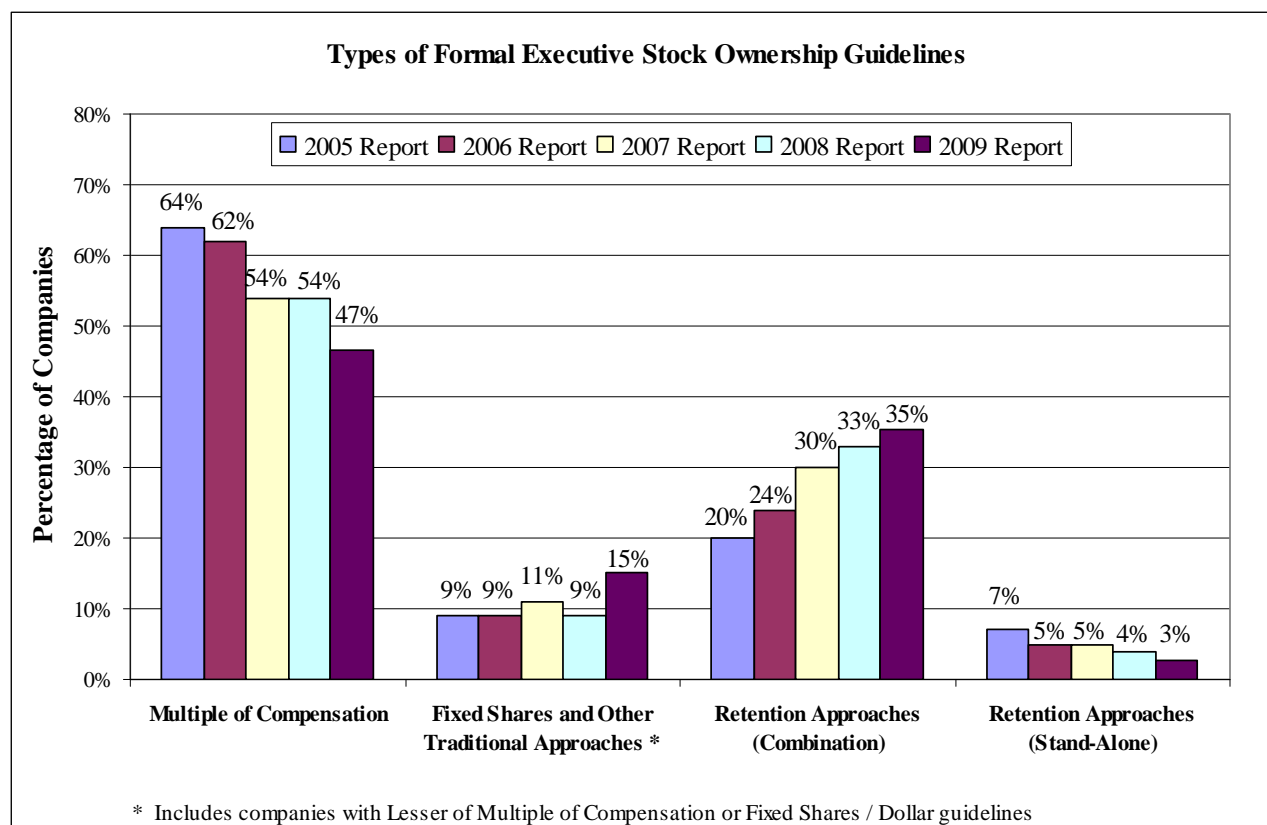


Despite the limited disclosure in the 2009 proxy statements of specific program changes that companies have made to their executive stock ownership guidelines in response to the market decline, we anticipate that companies will continue to monitor the impact of lower stock prices on the ability to meet ownership guidelines and may consider changes to the design of their ownership programs, including adoption of retention ratios coupled with elimination of compliance deadlines.

Traditional ownership guidelines continue to be the most prevalent approach for executives among the Top 250 companies, with sixty-two percent of the companies employing either a multiple of compensation, fixed share, or other traditional approach.



However, executive ownership guidelines continue to diversify and a clear trend is evident: guidelines based solely on multiple of compensation (e.g. salary or target cash compensation) have steadily decreased since the 2005 report, while retention approaches combined with a traditional approach, such as a multiple of compensation, have increased. The chart below illustrates this trend:

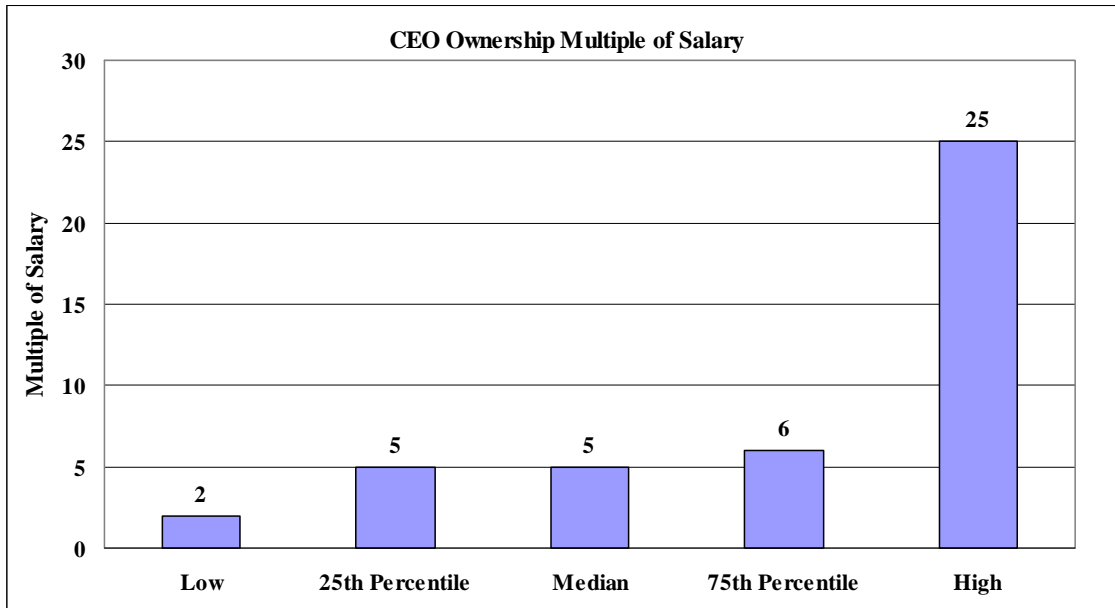


The following table provides a detailed break-out of the types of guidelines in use among companies with formal executive ownership guidelines in the Top 250:

| Types of Formal Executive Stock Ownership Guidelines | | | | | | | | | |
|---|--------------------------|--------------|---|----------------------|----|---------------------|----------------------|---------------------|-------|
| | Traditional Approaches | | | Retention Approaches | | | | | Total |
| | Multiple of Compensation | Fixed Shares | Lesser of Mult. of Comp. or Fixed Shares / \$ | Combination Approach | | Retention & Holding | Retention Ratio Only | Holding Period Only | |
| Retention Ratio | | | | Holding Period | | | | | |
| <i>All Companies w/Guidelines</i> | | | | | | | | | |
| No. of Companies | 102 | 22 | 11 | 54 | 12 | 9 | 6 | 1 | 217 |
| % of Total | 47% | 10% | 5% | 25% | 6% | 4% | 3% | <1% | 100% |

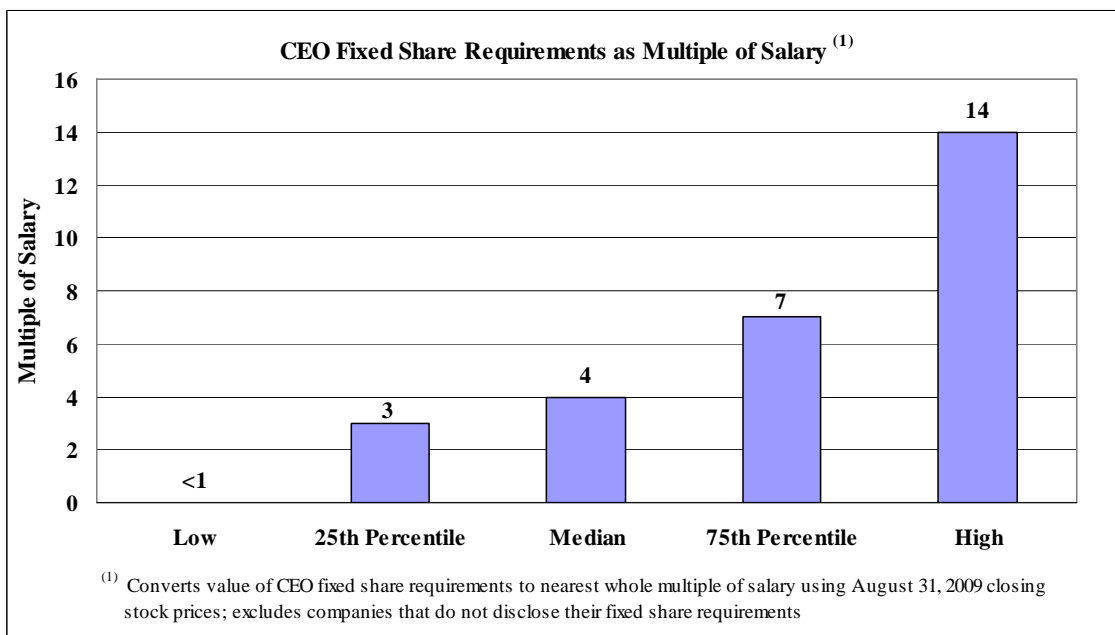
CEO Salary Multiple

CEO multiples of salary range from 2X to 25X base salary, with a median of 5X base salary, which is unchanged from last year's report.



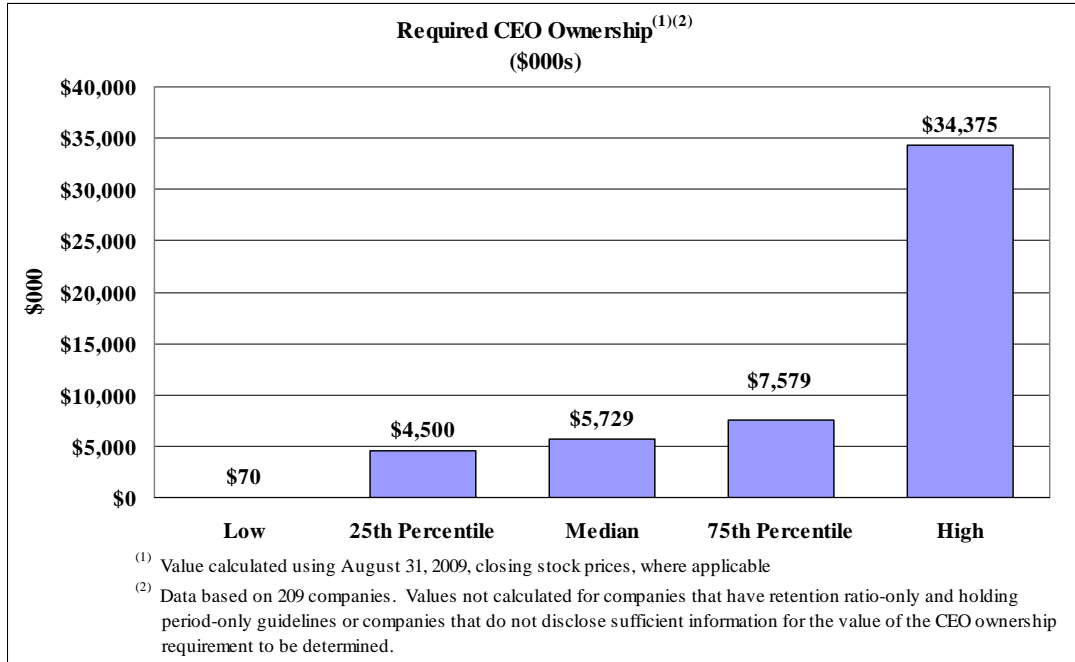
CEO Fixed Share Requirements

There is significant variation in the number of shares required to be owned for CEOs, ranging from 2,500 shares to over 500,000 shares, with a median of 145,000 shares. As a fixed number of shares alone do not convey the value of a guideline, the table below illustrates CEO fixed share requirements converted to a multiple of salary for comparative purposes. Notably, some companies' fixed share requirements are currently valued at less than the CEO's annual base salary due to small share requirements and low stock prices.



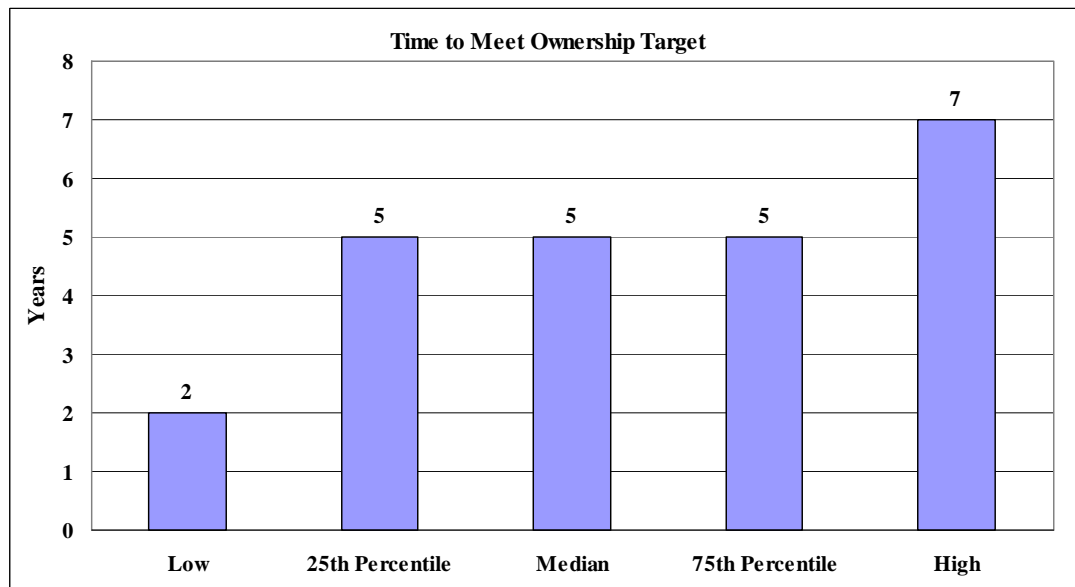
Value of Required CEO Ownership

There is also great variation in the value of company stock that is required to be held by CEOs among the Top 250 companies, ranging from approximately \$70,000 to a high of approximately \$34.4 million, with a median value of approximately \$5.7 million. The table below illustrates the required value of CEO ownership for all traditional ownership approaches, including multiple of salary and fixed share guidelines.



Time to Meet Ownership Guidelines

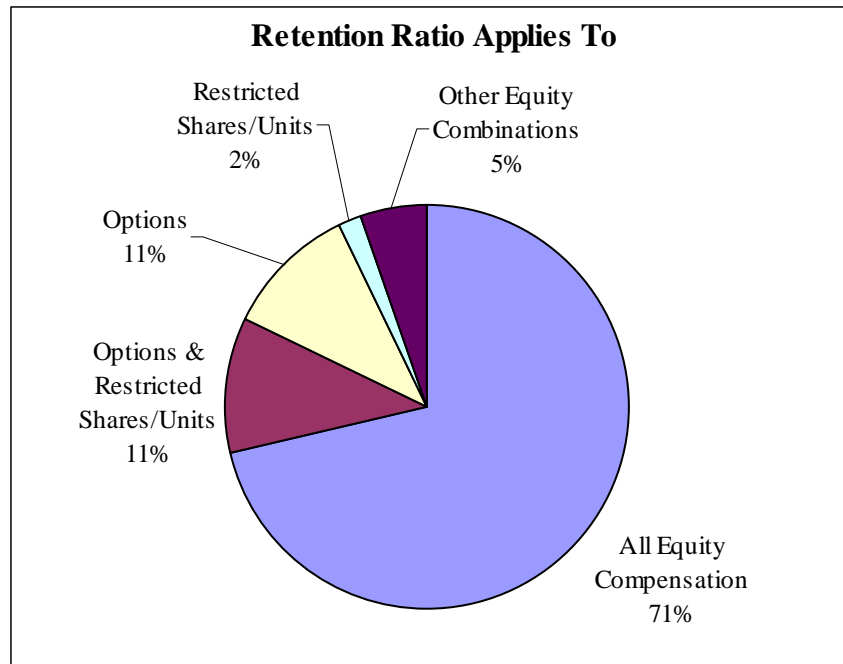
Seventy-one percent of all companies with formal executive stock ownership guidelines disclose a fixed time period to comply with the guidelines. Executives are generally expected to meet traditional ownership guidelines within five years following implementation of the guidelines or first being subject to the ownership policy.



Executive Retention Ratios

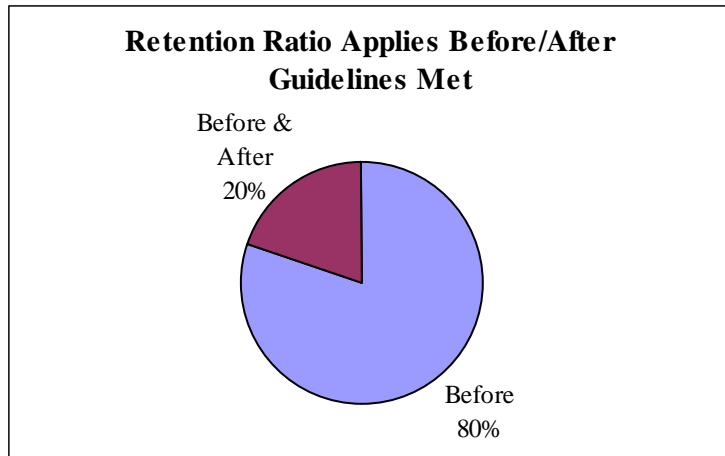
Retention ratios, along with holding periods, are an ownership guideline design type used by companies that employ retention approaches. Thirty-two percent of the companies with formal executive stock ownership guidelines incorporate a retention ratio. Twenty-three percent of these companies disclose a hold to or past retirement feature, requiring an executive to hold certain shares or maintain a retention ratio until or after his or her retirement or termination of service.

Retention ratios most commonly apply to after-tax profit shares resulting from all equity grants. Only one company disclosed a retention ratio that applies to pre-tax shares resulting from option exercises, vesting of restricted stock, or settlement of other equity awards. Retention ratios for executives apply to various equity types. The chart below illustrates equity types to which executive retention ratios apply:

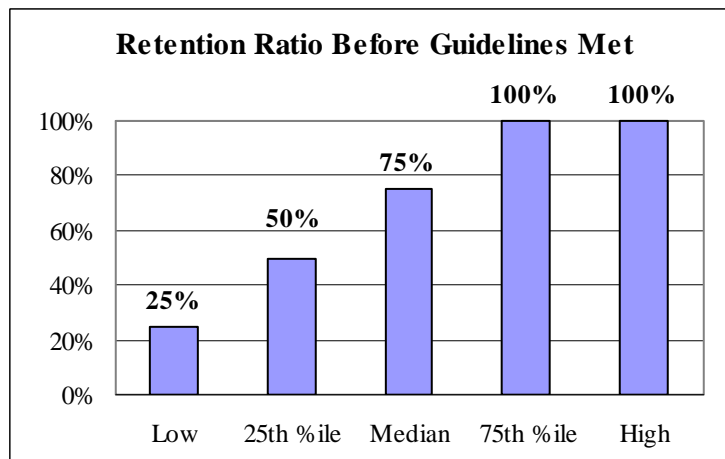


Retention ratios can be used as a stand-alone guideline or in combination with traditional guidelines. Retention ratios are used as a stand-alone ownership guideline at six companies. These companies use retention ratios of either seventy-five or fifty percent of profit shares from equity grants. Note that five of the six companies using stand-alone retention ratios are in the Financials sector.

The vast majority of companies with retention ratios (i.e., ninety-one percent) combine a retention ratio with a traditional approach (e.g., multiple of salary guideline). Of these companies, the majority of retention ratios apply only until the traditional guideline is met, as illustrated in the chart below:



The following chart illustrates the common retention ratios for CEOs, applicable before traditional guidelines are met, among companies with combined retention ratios and traditional approaches:



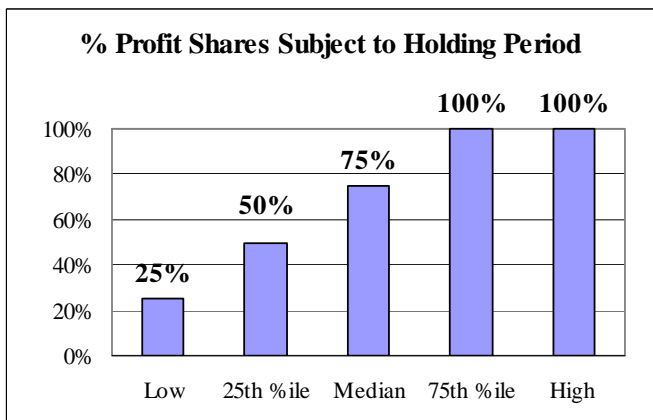
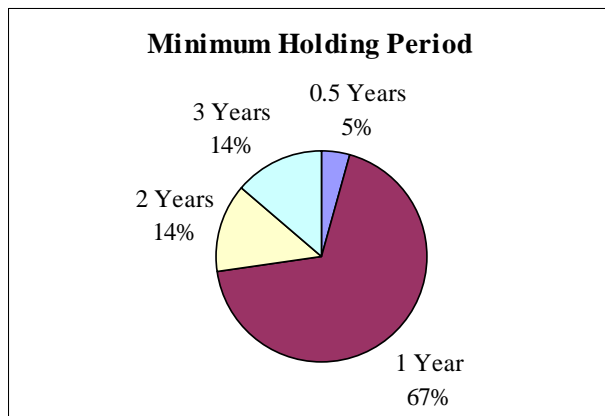
Because retention ratios ensure that executives accumulate and hold shares of company stock, a formal compliance deadline is often viewed as unnecessary. Only thirty-eight percent of companies using retention ratios combined with a traditional approach disclose a fixed time period to meet the guidelines. The time period to meet the guidelines among these companies ranges from two to five years, with a median of five years.

Executive Holding Periods

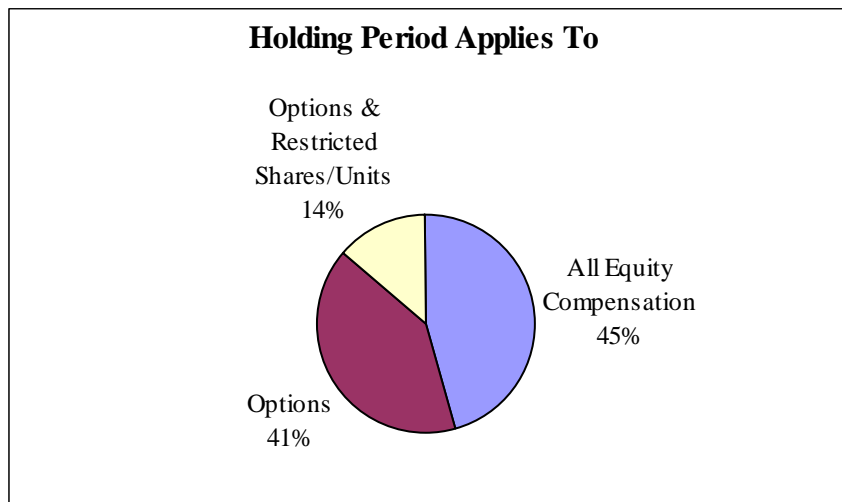
Holding periods are another ownership guideline design type used by companies that employ retention approaches. Requiring executives to retain shares acquired from equity compensation limits their ability to profit from sudden changes in a company’s stock price. Ten percent of companies with formal executive ownership guidelines employ a holding period requirement.

As with executive retention ratios, the vast majority, or ninety-five percent, of these companies use a holding period requirement in combination with a traditional approach guideline, while only five percent use a stand-alone holding period. Fifty-seven percent of these companies disclose a fixed period in which to meet the additional guideline.

The most prevalent holding period is one year and the median percentage of profit shares subject to a holding period, for CEOs, is seventy-five percent.



Holding periods for executives apply to various equity types. Among executives, holding periods most commonly apply to profit shares from all equity grants. The chart below illustrates equity types to which executive holding periods apply:



Formal Executive Ownership Guidelines by Economic Sector

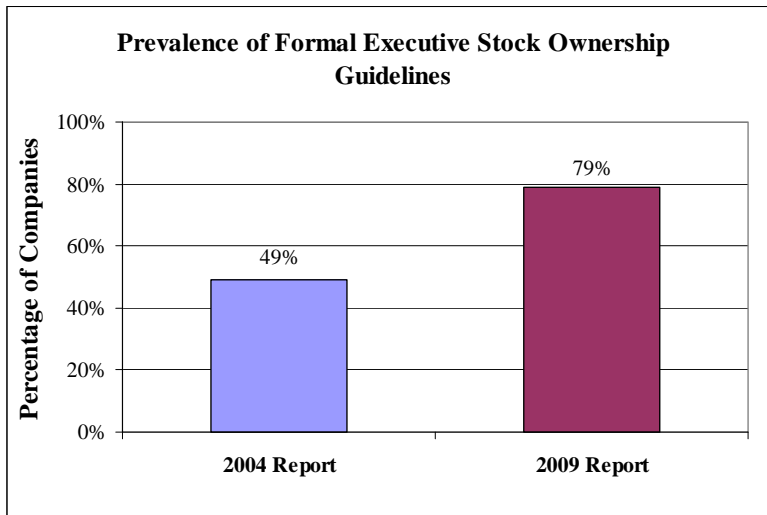
Analyzing formal executive ownership guidelines by economic sector provides insight into the varied use of traditional and retention approaches among the Top 250 companies. Among all companies with formal executive ownership guidelines, sixty-two percent use traditional approaches, while thirty-eight percent use retention approaches. Certain economic sectors do not follow this overall split. The Information Technology and Materials sectors exaggerate the split, with traditional approaches being more prevalent. Companies in the Consumer Discretionary and Financials sectors are more evenly divided between the two guideline approaches. Finally, the Utilities sector reverses the general split, with the majority of companies in this sector using retention approaches. The Telecommunications Sector, while departing from general trends, has limited incumbents and the data should be viewed accordingly. The following table provides detail on the break-out of traditional and retention approaches among the Top 250 companies by economic sector:

| | Formal Executive Stock Ownership Guidelines By Economic Sector ⁽¹⁾ | | | |
|--------------------------------------|--|---------------------------------------|-------------------------|------------------------|
| | Total Companies | Formal Executive Ownership Guidelines | | No Formal Guideline |
| | | Traditional Approaches | Retention Approaches | |
| <i><u>Economic Sector</u></i> | | | | |
| Consumer Discretionary | 30 | 37% | 33% | 30% |
| Consumer Staples | 29 | 59% | 31% | 10% |
| Energy | 25 | 44% | 24% | 32% |
| Financials | 32 | 50% | 41% | 9% |
| Health Care | 33 | 58% | 36% | 6% |
| Industrials | 31 | 58% | 32% | 10% |
| Information Technology | 34 | 65% | 26% | 9% |
| Materials | 12 | 83% | 17% | 0% |
| Telecommunication Services | 6 | 67% | 0% | 33% |
| Utilities | 18 | 39% | 61% | 0% |

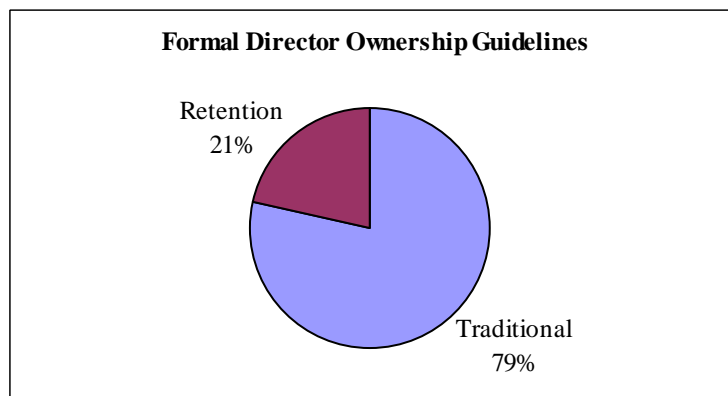
⁽¹⁾ Economic sectors provided by Standard & Poor's Research Insight

TYPES OF FORMAL DIRECTOR OWNERSHIP GUIDELINES

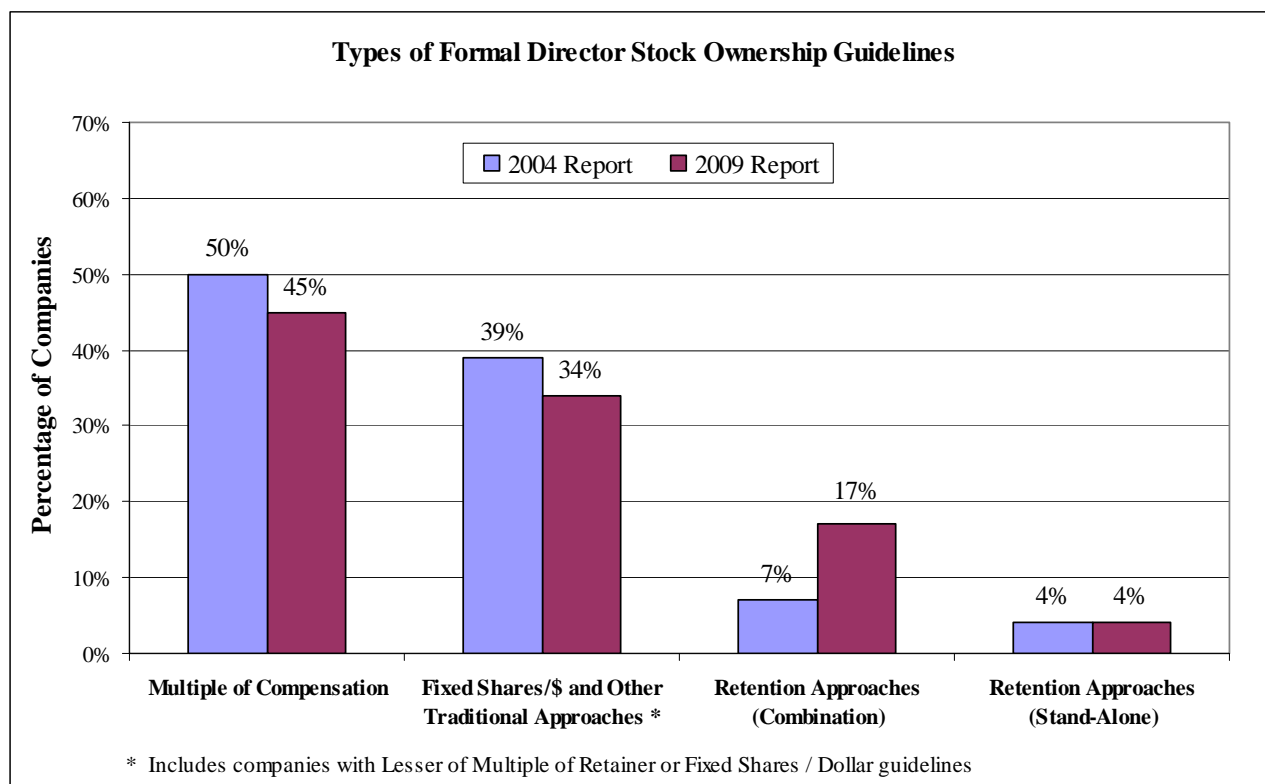
Stock ownership guidelines for directors have increased in prevalence among the Top 250 companies since we published our 2004 Stock Ownership Guidelines report. Seventy-nine percent of the Top 250 companies disclose formal ownership guidelines for their directors, representing a thirty percent increase from the 2004 report. Similar to the findings for executive ownership guidelines, the prevalence of director ownership guidelines is expected to continue to increase. Again, this will likely occur at a slower rate than in prior years, as ownership guidelines have been accepted as a corporate governance “best practice” and the vast majority of companies in the Top 250 have now already adopted ownership guidelines.



As with executive stock ownership guidelines, traditional ownership guidelines continue to be the most prevalent approach for directors among the Top 250 companies, with seventy-nine percent of the companies employing either a multiple of compensation, fixed share/dollar, or other traditional approach.



Director guidelines among the Top 250 companies continue to diversify, and there is an increasing prevalence of retention approaches combined with a traditional approach. This is the same trend found for executive guidelines, as is illustrated in the chart below:



The following table provides a detailed break-out of the types of guidelines in use among companies with formal director ownership guidelines in the Top 250:

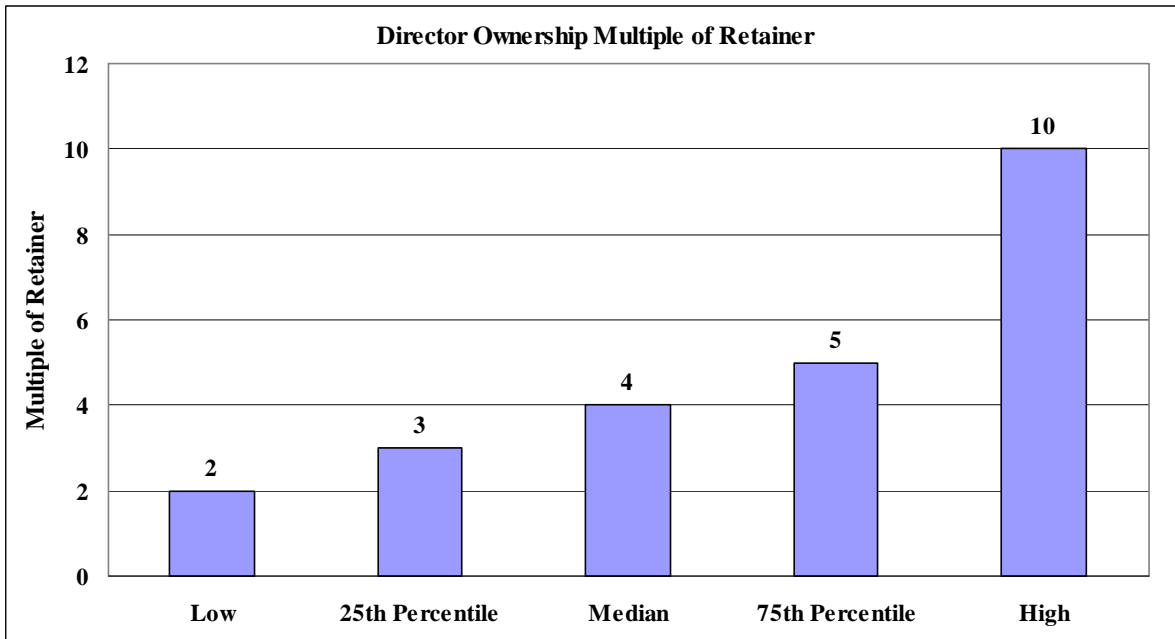
| Types of Formal Director Stock Ownership Guidelines ⁽¹⁾ | | | | | | | | | |
|---|------------------------------|--------------|-----------------|--|----------------------|------------|-----------|------------------|-------|
| | Traditional Approaches | | | | Retention Approaches | | | | Total |
| | Multiple of Retainer / Comp. | Fixed Shares | Fixed \$ Amount | Lesser of Mult. of Retainer or Fixed Shares / \$ | Combination Approach | | Retention | | |
| Retention Ratio | | | | | Holding Period | Ratio Only | Other | | |
| <i>All Companies w/Guidelines</i> | | | | | | | | | |
| No. of Companies | 89 | 43 | 16 | 7 | 22 | 10 | 7 | 3 ⁽²⁾ | 197 |
| % of Total | 45% | 22% | 8% | 4% | 11% | 5% | 4% | 1% | 100% |

⁽¹⁾ Excludes grant of deferred stock units as a formal guideline

⁽²⁾ "Other" includes multiple of retainer with retention ratio and holding period, holding period only, and multiple of annual retainer or retention ratio

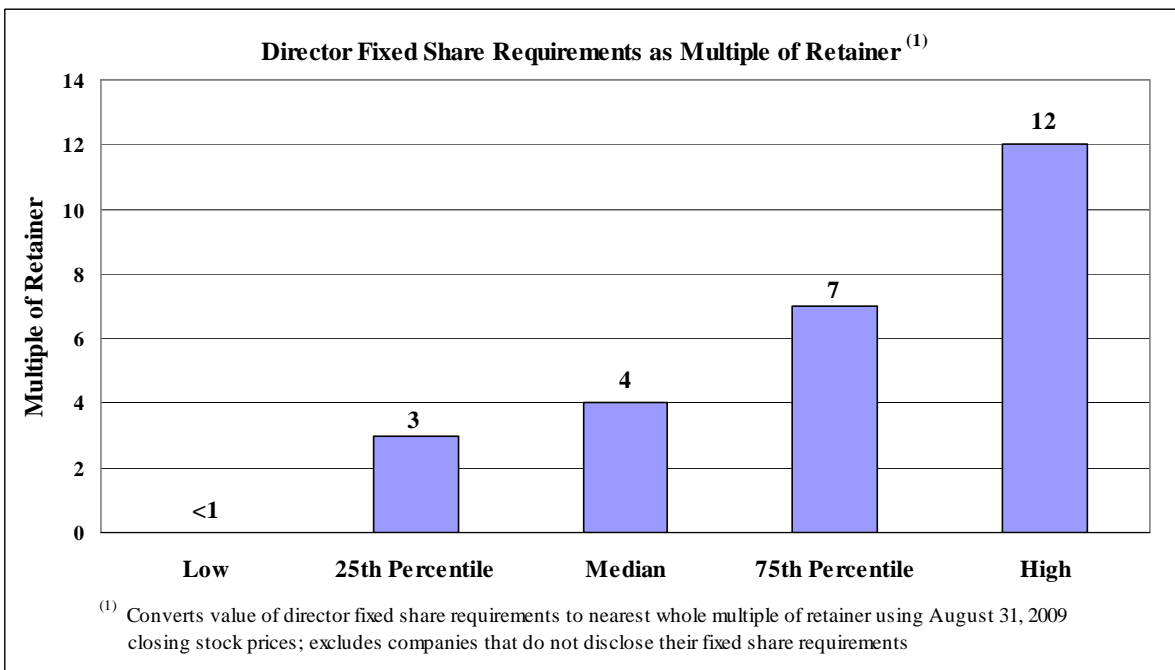
Director Retainer Multiple

Director multiples of annual retainer range from a low of 2X to a high of 10X, with a median multiple of 4X.



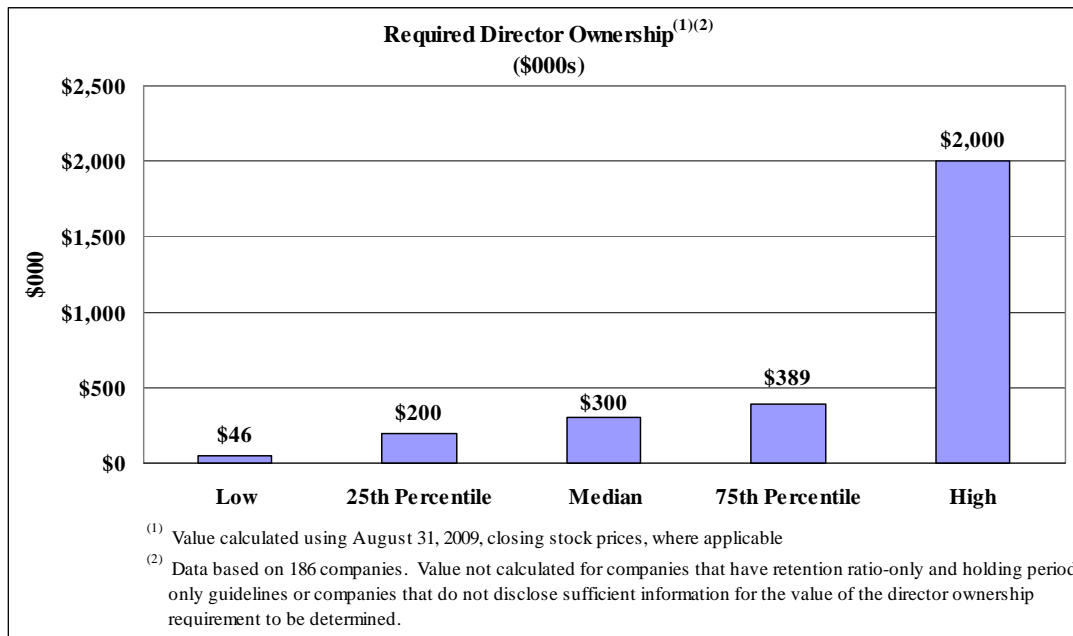
Director Fixed Share Requirements

Director share ownership requirements range from a low of 500 shares to a high of 25,000 shares. The median share ownership requirement is 7,000 shares. The table below reflects director fixed share requirements converted to a multiple of retainer for comparative purposes. As seen with CEO fixed share values, some companies' fixed share requirements are currently valued at less than the director's annual retainer due to small share requirements and low stock prices.



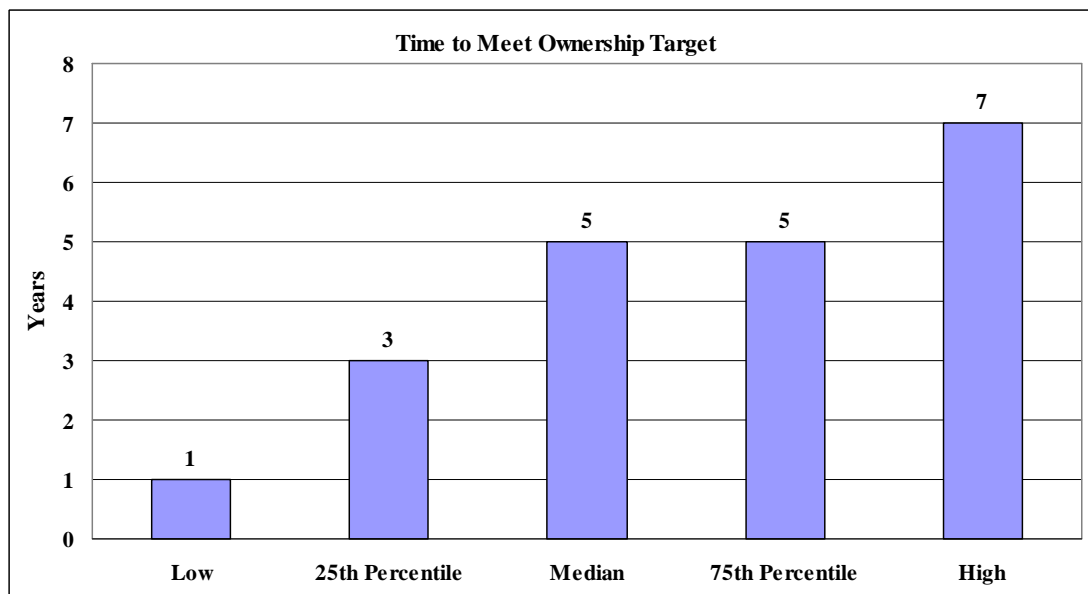
Required Director Ownership

The value of required director stock ownership varies widely among the companies with formal ownership guidelines. The ownership requirements range from a low of \$46,000 to a high of \$2 million. The median stock ownership requirement is \$300,000. The table below shows the required value of director ownership for all traditional ownership approaches, including multiple of salary and fixed share guidelines.



Time to Meet Ownership Guidelines

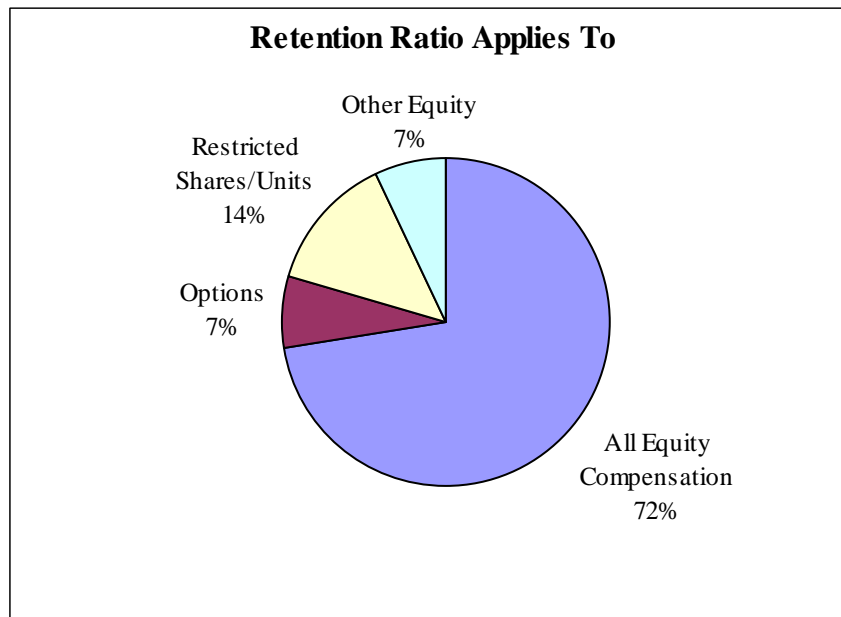
Eighty-five percent of all companies with formal director stock ownership guidelines disclose a fixed time period to comply with the guidelines. Directors are generally expected to meet traditional ownership requirements within three to five years following initial election as a director or implementation of guidelines.



Director Retention Ratios

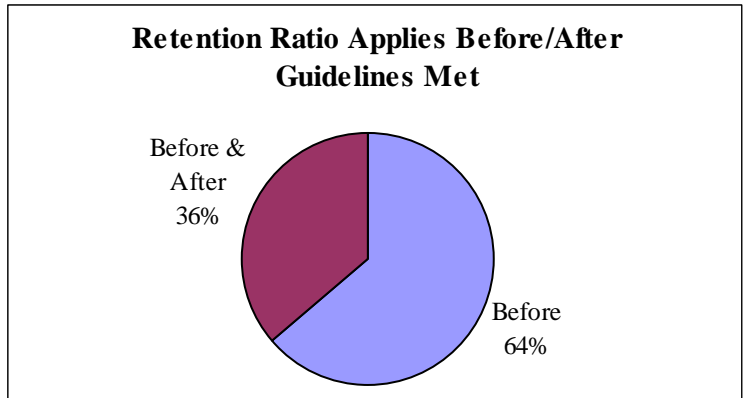
Sixteen percent of companies with formal director stock ownership guidelines incorporate a retention ratio. Fifty-two percent of these companies disclose a hold to or past retirement feature, requiring a director to hold certain shares or maintain a retention ratio until or after his or her retirement or termination of service. This percentage does not include companies that grant deferred share units, which are usually held to or past a director's retirement or termination of service. Refer to the section on deferred share units on page 20 for further details.

Among directors, retention ratios most commonly apply to profit shares resulting from all equity grants. Retention ratios for directors apply to various equity types. The chart below illustrates equity types to which director retention ratios apply:

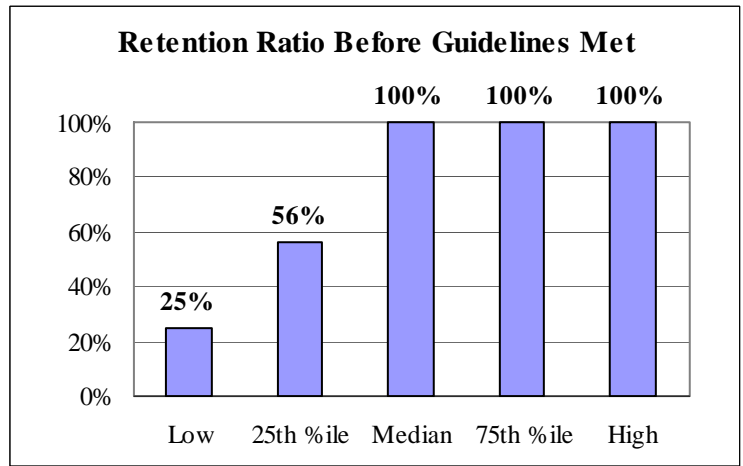


Retention ratios can be used as a stand-alone ownership guideline or in combination with traditional guidelines. Retention ratios are used as a stand-alone ownership guideline at twenty-three percent of companies that use retention ratios. These companies use retention ratios of either one hundred or seventy-five percent of profit shares from equity grants.

Seventy-seven percent of companies with retention ratios combine a retention ratio with a traditional approach (e.g., multiple of retainer). Of these companies, the majority of retention ratios applies only until the traditional guideline is met, as illustrated in the chart below:



The following chart illustrates the common retention ratios, applicable before traditional guidelines are met, among companies with combined retention ratios and traditional approaches:

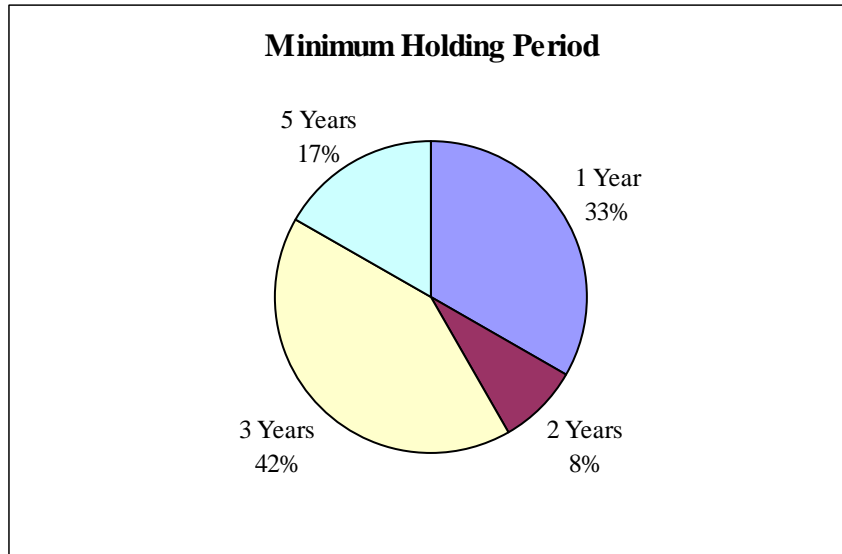


Sixty-four percent of companies using retention ratios combined with a traditional approach disclose a fixed time period to meet the guidelines. The time period to meet the guidelines among these companies ranges from three to five years, with a median of five years.

Director Holding Periods

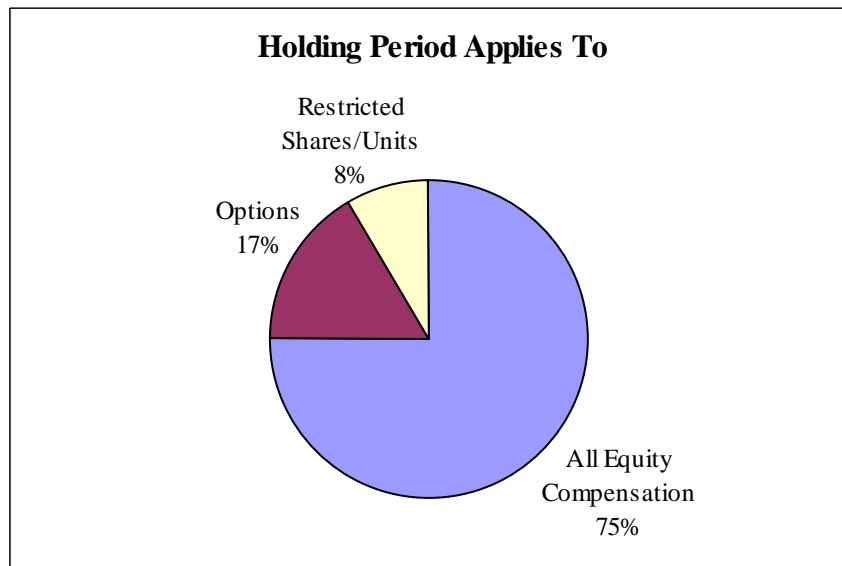
Six percent of companies with formal director ownership guidelines (i.e., twelve companies) employ a holding period. Eleven of these companies use a holding period requirement in combination with a traditional approach guideline and only one company does not disclose a fixed period in which to meet the traditional guideline.

The most prevalent holding period is three years:



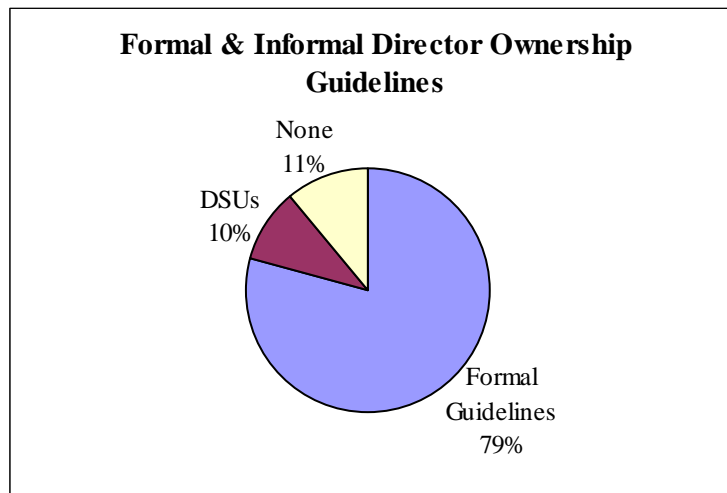
The vast majority of companies with director holding periods that disclose the applicable percentage of profit shares to be held require one hundred percent of profit shares to be held during the applicable period.

As with executives, holding periods for directors apply to various equity types. Among directors, holding periods most commonly apply to profit shares resulting from all equity compensation. The chart below illustrates equity types to which director holding periods apply:

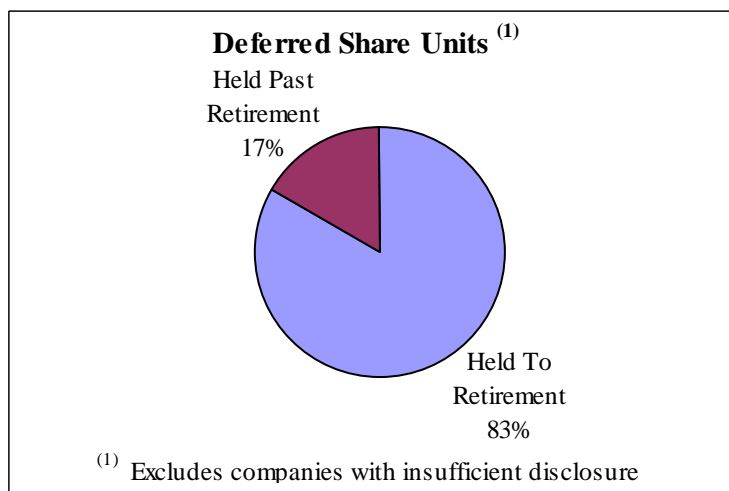


Director Deferred Stock Units

For purposes of this report, director compensation that is paid in deferred stock units that are not distributable until termination of board service or later are not considered to be formal ownership guidelines. This compensation program design feature arguably eliminates the need for formal stock ownership guidelines, and is an equally effective means of ensuring that directors acquire and hold significant amounts of company stock. One-third of all companies in the Top 250 and thirty percent of companies with formal stock ownership guidelines grant some form of deferred stock units. If companies granting director deferred stock units were to be included as having formal guidelines, eighty-nine percent of companies would be deemed to have a director ownership guideline, compared with the seventy-nine percent that have formal ownership guidelines.



Eighty-three percent of the Top 250 companies that grant director deferred stock units require them to be held until retirement or termination of service, while seventeen percent require them to be held past retirement or termination of service. The most common holding period past retirement or termination of service for deferred stock units is six months to one year.



Formal Director Ownership Guidelines by Economic Sector

Among all companies with formal director ownership guidelines, seventy-nine percent use traditional approaches, while twenty-one percent use retention approaches. The Information Technology sector employs traditional approaches to an even greater degree than the total companies in Top 250. The Consumer Discretionary, Health Care, and Materials sectors, however, feature greater prevalence of retention approaches. The Telecommunications Sector, while departing from general trends, has limited incumbents and the data should be viewed accordingly. The following table provides detail on the break-out of traditional and retention approaches among the Top 250 companies by economic sector:

| | Formal Director Stock Ownership Guidelines By Economic Sector ⁽¹⁾ | | | |
|-------------------------------|---|--------------------------------------|-------------------------|------------------------|
| | Total Companies | Formal Director Ownership Guidelines | | No Formal Guideline |
| | | Traditional Approaches | Retention Approaches | |
| <u>Economic Sector</u> | | | | |
| Consumer Discretionary | 30 | 50% | 23% | 27% |
| Consumer Staples | 29 | 66% | 17% | 17% |
| Energy | 25 | 60% | 12% | 28% |
| Financials | 32 | 56% | 16% | 28% |
| Health Care | 33 | 55% | 24% | 21% |
| Industrials | 31 | 65% | 16% | 19% |
| Information Technology | 34 | 76% | 9% | 15% |
| Materials | 12 | 58% | 25% | 17% |
| Telecommunication Services | 6 | 33% | 17% | 50% |
| Utilities | 18 | 78% | 17% | 6% |

⁽¹⁾ Economic sectors provided by Standard & Poor's Research Insight

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This report is intended to alert compensation professionals about developments that may be useful to their companies and should not be relied on as providing specific company advice. General questions about the subjects in this report may be directed to Claudio Schneider at (212) 299-3703 or by email at cgschneider@fwcook.com. Copies of this report and other published materials are available on our website at www.fwcook.com