FREDERIC W. COOK & CO., INC.

THE 2007 TOP 250

Long-Term Incentive
Grant Practices for Executives

OCTOBER 2007

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The landscape for executive compensation is constantly shifting, in part due to the multiple forces with a stake in its evolution. In 2006, many of these forces in executive compensation contributed significantly to the changing environment, most notably the Securities and Exchange Commission (SEC). In September 2006, the SEC issued the new Executive Compensation and Related Person Disclosure rules, which require all public companies to provide more comprehensive and understandable information regarding their executive compensation programs. Changes in the information provided to investors include option grant value, the assumptions used to calculate the value of equity grants, and perquisite and benefit compensation. After being put on alert by recent option pricing scandals, the media has, as a result of the revised rules, more details to scrutinize pay-for-performance initiatives and Compensation Committee practices.

Resuming a movement from last proxy season, pension-funds, activist investors, and their advisors (ISS, Glass-Lewis, etc.) continue to use shareholder proposals and voting for equity compensation plans and compensation committee members to push back on excessive practices. In the coming months, prospective legislation introduced by Rep. Barney Frank requiring shareholder approval of executive compensation programs could also take center stage in affecting Compensation Committee decision-making processes.

Finally, all companies, not just early adopters of FAS 123R, recorded the full compensation cost of equity awards beginning in January of 2006. As a result, the reallocation of long-term incentive value away from options continues today, a trend which began years ago as companies reassessed their use of stock options as they planned to adopt FAS 123R. Companies are shying away from use of stock options as the sole long-term incentive and increasing usage of full-value shares to reward executives and to control potential shareholder dilution.

Public companies must weigh the interests of shareholders while trying to attract and retain individuals crucial to corporate success. As a result, equity alternatives that incorporate performance goals in addition to continued service requirements are increasingly being utilized along with indicators of good corporate governance, such as stock ownership guidelines.

Key findings from the Frederic W. Cook & Co. 2007 Top 250 report include the following:

- The use of long-term incentive grant types tied to performance requirements continues to increase
- Stock option value continues to be replaced by performance awards
- Design variations of stock options, including reloads, discounts, and tandem grants, have become uncommon
- CEO LTI values have resumed normal increases
- The prevalence of ownership guidelines, such as mandatory share ownership through fixed guidelines or retention ratios, continues to be on the rise

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

OVERVIEW AND BACKGROUND

Since 1973, Frederic W. Cook has researched and published annual reports on long-term incentive grant practices for executives. This report, our 35th edition, presents information on long-term incentives currently in use for executives 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, 2007 as reported by Standard & Poor's Research Insight.

SURVEY SCOPE

The report covers the following topics:

- Continuing, discontinued and new long-term incentive grant types
- Grant type design features, including vesting, option terms, and performance targets
- Payment of annual incentives in equity
- Executive stock ownership guideline prevalence
- Long-term incentive grant practice evolution
- An analysis of CEO long-term incentive grant values from 2002 to 2006

The grant type information in this report is presented both in summary form and on a company-by-company basis. Definitions for each grant type appear in the *Appendix*.

OTHER SURVEY PARAMETERS

Similar to previous editions of the report, all information was obtained from documents publicly filed with the Securities and Exchange Commission including company proxy statement, annual report, and Form 10-Q, 10-K, and 8-K filings. As Form 8-K disclosure is required under the Sarbanes-Oxley Act of 2002 within four business days of making material changes to compensation and benefit arrangements, the results tend to more closely reflect "real time" and may represent current practice rather than that of the prior year.

It should be noted that comparisons to prior-year practices, other than those relating to the CEO analysis, do not reflect a constant company population. Annual inclusion in this report will vary depending on company size and recent corporate actions (such as mergers and acquisitions). In terms of the 2007 Top 250 sample, a total of 22 companies, representing nine percent of the companies reviewed, are new to this year's report. Therefore, "trend" data can be influenced by changes in the company sample from year-to-year, as well as actual changes in grant usage. For the CEO analysis, however, this year's sample is the same for all years covered (2002 to 2006), although the sample does differ somewhat from that used in the 2006 Top 250 report.

Note that in some circumstances totals may not add up to 100 percent due to rounding or companies having more than one type of practice.

DEFINITION OF USAGE

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 generally 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.

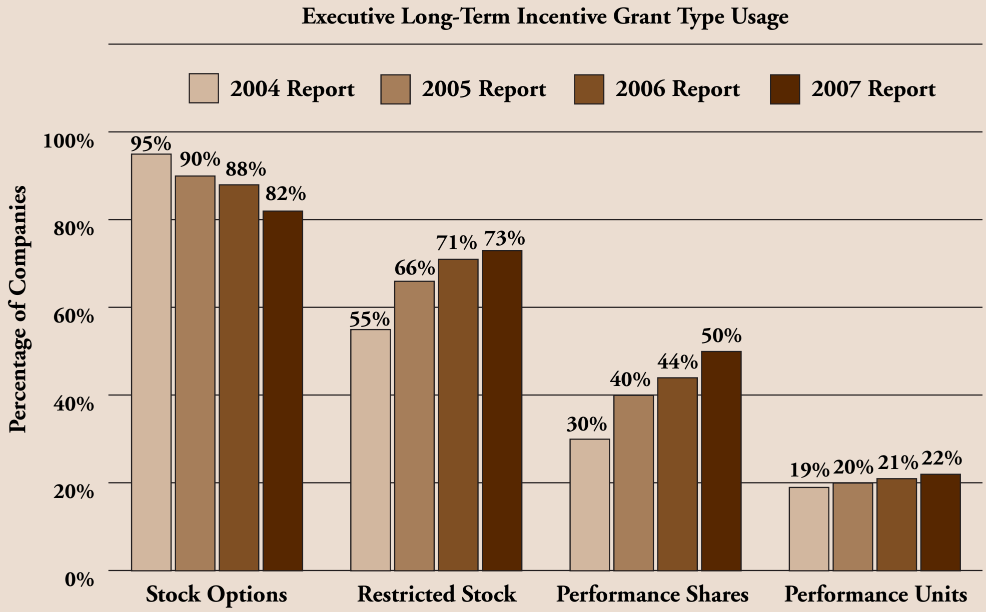
To be considered a "long-term incentive" for purposes of this report, a grant must possess the following general characteristics:

- The grant type must be made under a formal plan or practice and may not be limited by both scope and frequency. A grant with *limited scope* is awarded to only a select group of executives. A grant with *limited frequency* is an award that is not part of a company's typical grant practices and appears to fall outside the principal long-term incentive program. For example, a grant determined to be made specifically as a hiring incentive, replacement of lost benefits upon hiring, or promotional award is not considered a long-term incentive for this report. 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. would not be considered a grantor of 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	Historical and continuing grants
New	New (latest or current fiscal year) or future (indicated in proxy statement or Form 8-K) grants
Dropped	Eliminated or to-be-discontinued grants

SUMMARY OF MAJOR EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES IN USE



Stock Options are rights to purchase company stock at a specified exercise price over a stated option term and represent the most widely used long-term incentive grant type among Top 250 companies. Eighty-two percent of the Top 250 companies grant stock options. Sixteen, or roughly six percent, of the Top 250 companies that have used options in the past have dropped stock options from their long-term incentive programs this year or expect to do so next year.

Restricted Stock includes actual shares or share "units" that are earned solely by continued employment. This figure excludes companies that use restricted stock grants only in hiring situations or as one-time awards under special circumstances. In recent years, use of restricted stock has become almost as prevalent as stock options usage. Seventy percent of the Top 250 companies have historically granted restricted stock with three percent beginning to grant restricted stock either during the latest fiscal year or are planning to do so in the next year. Only two percent of the Top 250 companies have discontinued usage of restricted stock in the most recent fiscal year.

Performance Awards consist of stock-denominated performance "shares" and cash-denominated performance "units," which are earned based on performance over a multi-year period. Over the past four years, performance awards have become increasingly more common. In our 2004 report, only forty-nine percent of the Top 250 companies use either one or both of these grant types, compared to sixty-seven percent of the Top 250 companies in 2007. Performance shares are the most rapidly growing grant type in use.

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES

Grant Type (See Appendix for definitions.)	Percentage of Companies Using Grant Type			
	2004 Report	**2005 Report**	**2006 Report**	**2007 Report**
Stock Options	**95%**	**90%**	**88%**	**82%**
• Performance	6	6	3	4
– Vesting	*1*	*3*	*1*	*2*
– Accelerated Vesting	*5*	*3*	*2*	*2*
• Restoration (Reload)	10	6	2	0
• Premium	2	2	1	2
• Discount	<1	<1	0	0
• Indexed	1	0	<1	<1
Restricted Stock	**55%**	**66%**	**71%**	**73%**
• PARSAPs	4	7	7	4
Performance Shares	**30%**	**40%**	**44%**	**50%**
Performance Units	**19%**	**20%**	**21%**	**22%**
SARs	**3%**	**3%**	**5%**	**6%**
• Tandem	1	<1	<1	0
• Freestanding	2	2	4	6
• Additive	0	0	0	0

STOCK OPTION DESIGN FEATURES

Overview – Among the Top 250 companies, six percent incorporate one or more design features into their stock option grants. The following are the principal option grant design features in use at the Top 250 companies:

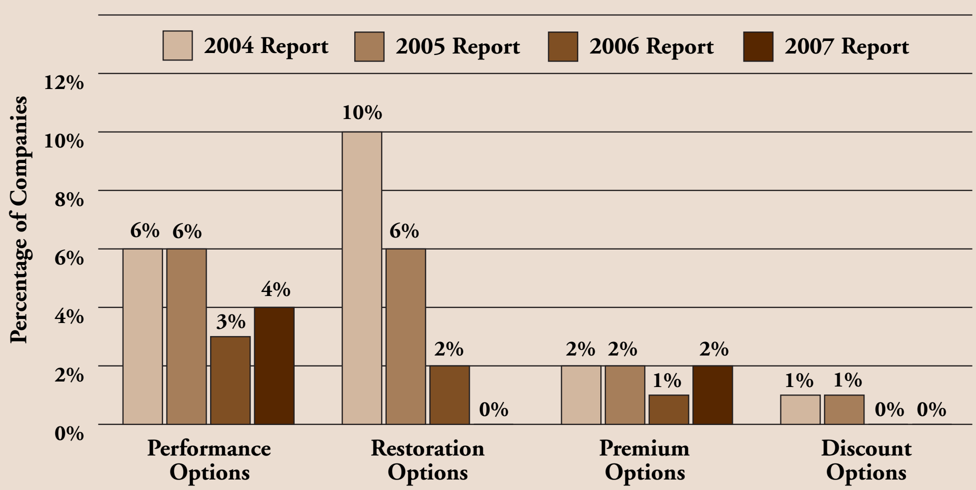
Performance Stock Options are stock options with vesting tied in some manner to specified performance criteria. Overall, performance options are used by four percent of Top 250 companies. Half of these companies use performance criteria to *accelerate* vesting. Over the last four years, the use of options with performance-accelerated vesting has continued to decline, as highlighted in the chart on the preceding page. The decrease is a result of the option expensing mandate in which ultimate vesting is not required to preserve fixed expense. Performance-vesting options are a variation where the stock option is forfeited if the performance objectives are not met. Although use of "earn it or lose it" types of options had been expected to increase in prevalence once option expensing was mandatory, there has been a decline in usage likely related to the wide gap between FAS 123R cost and employee perceived value. The other half of the Top 250 companies use performance-vesting options.

Restoration (Reload) Stock Options are options granted with a feature that typically allows for additional options to be granted that replace or "restore" already-owned shares exchanged in a "stock-for-stock" exercise. Restoration options were originally designed to encourage management stock ownership, but the feature became unfavorable under FAS 123R because each additional reload must be accounted for as a separate grant and reported as a separate grant under the new SEC proxy disclosure rules. As a result, several companies including Kellogg, McGraw-Hill, and Wellpoint recently discontinued use of restoration options, and none of the Top 250 companies uses this feature at this time, compared to ten percent in our 2004 report.

Premium and Discount Stock Options have an exercise price *above* or *below* the market price at grant, respectively. Two percent of the Top 250 companies use premium stock options. Discount stock options have disappeared because there are adverse tax consequences under the new deferred compensation rules (IRC Section 409A).

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. Schering-Plough is the only company in the Top 250 that uses indexed options. Indexed options, although applauded by investor groups, are rarely used, presumably because of complex measurement under FAS 123R, complicated design and administrative issues associated with them, and low employee perceived value relative to FAS 123R cost.

Executive Stock Option Features



STOCK OPTION DESIGN FEATURES

Performance Stock Options	***Performance-Vesting –*** Alcoa Marsh & McLennan Thermo Fisher Scientific Transocean XTO Energy Zimmer Holdings
	Performance-Accelerated Vesting – Bristol-Myers Squibb Hartford Financial Services Legg Mason Lehman Brothers Holdings SLM
Premium Stock Options	Celgene International Business Machines Charles Schwab Tyco International
Indexed Stock Options	Schering-Plough

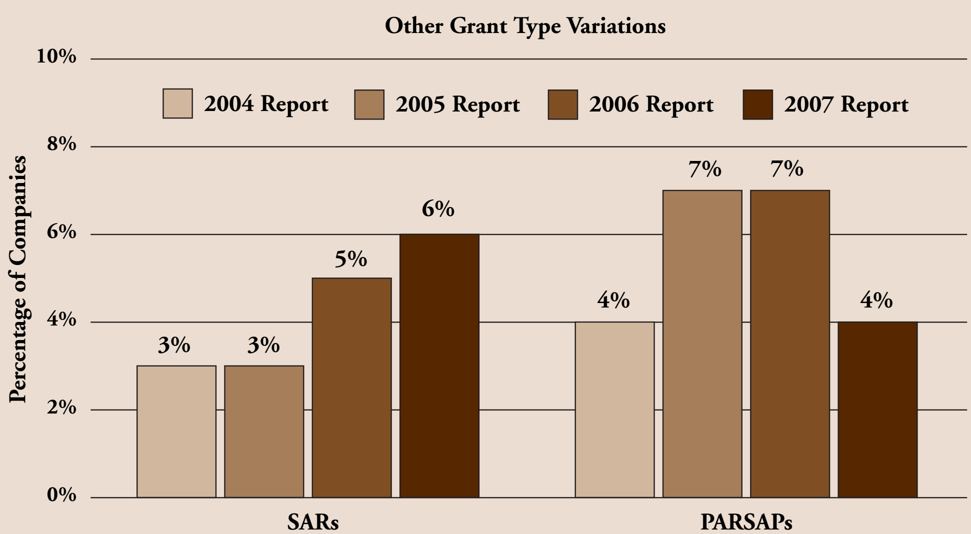
OTHER GRANT TYPE VARIATIONS

Overview – Other grant type variations used by the Top 250 companies include the following:

Stock Appreciation Rights ("SARs") are rights to receive at exercise the increase between the grant price and the market price of a share of stock. Six percent of companies in the Top 250 either currently grant SARs or anticipate granting SARs next year, as compared to three percent in our 2004 report. Historically, SARs were rarely granted due to their unfavorable accounting treatment under APB Opinion 25. In the future, stock-settled SARs usage may increase since they limit dilution, extend the life of the plan share reserve and ease administration. While different types of SARs can be granted, all of the Top 250 companies using SARs grant "freestanding" ones in replacement of option grants.

- **Tandem SARs** are granted in "tandem" with stock options, with the exercise of one canceling the other. None of the Top 250 companies grants tandem SARs.
- **Freestanding SARs** provide for a payment equal to the appreciation on "phantom" shares, without regard to an underlying stock option.
- **Additive SARs** are rights granted in addition to a stock option. None of the Top 250 companies has granted additive SARs since 1996, and companies are unlikely to do so in the future due to limitations under IRC Section 409A.

Performance-Accelerated Restricted Stock Award Plans ("PARSAPs") represent grants of restricted stock or stock units in which time-based restrictions may be accelerated by attainment of specified performance objectives. Currently, four percent of the Top 250 companies grant PARSAPs or plan to in the next fiscal year. Eight companies in the Top 250 have decided to discontinue use of PARSAPs, which may be considered unnecessary under new accounting rules since ultimate vesting is not required for fixed accounting.



OTHER GRANT TYPE VARIATIONS

Freestanding SARs	AETNA Becton Dickinson Caterpillar Countrywide Financial EOG Resources Fifth Third Bancorp Genworth Financial Harrahs Entertainment J. P. Morgan Chase Loews Marriot International Occidental Petroleum State Street United Technologies Yum! Brands
PARSAPs	EMC First Data First Energy Harley-Davidson Harrahs Entertainment H.J. Heinz Lowes Cos Moody's Paychex PG&E Starwood Hotels & Resorts

GRANT PRACTICE BY INDUSTRY

The chart below highlights use of long-term incentive grants in certain sectors, including the financial services, consumer discretionary (non-durable goods), information technology, health care, and industrial sectors. Industry categorizations are made based on Standard & Poor's Global Industry Classification Standard (GICS) Sector codes. Represented below are all sectors with more than 20 constituents in the Top 250 companies. As confirmed by the data below, a business practice often attributed to the information technology industry is the aggressive use of employee stock options to compensate executives and other employees. Additionally, eighty-two percent of companies in the financial services sector grant restricted stock (often as a form of payment for annual incentives) compared to seventy percent of non-financial services companies. Finally, industrials and consumer staples companies are both more likely to incorporate performance awards, either performance shares or performance units, in compensatory programs.

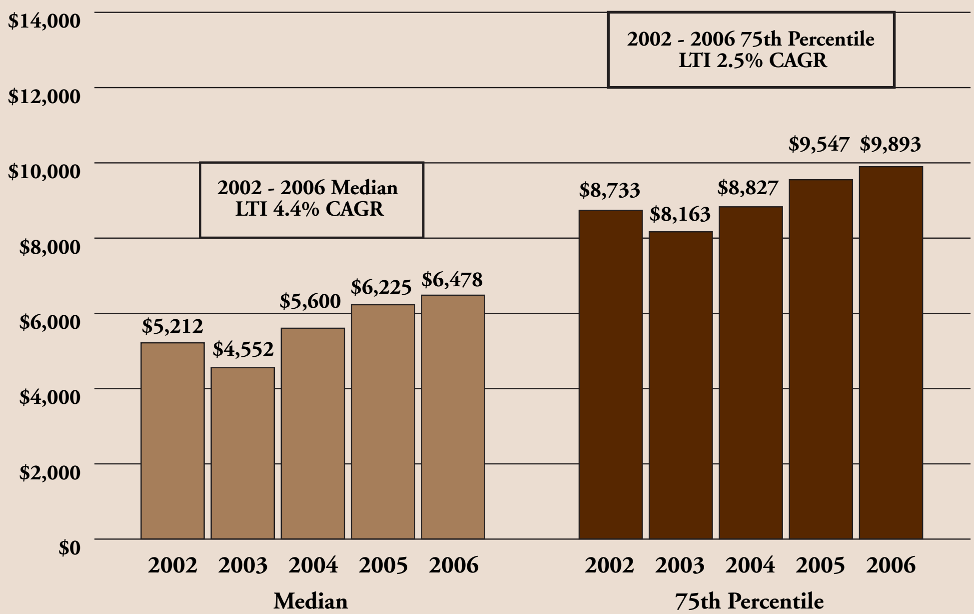
Sector	Number of Companies	Stock Options	Restricted Stock	Performance Awards
Information Technology	31	94%	68%	48%
Health Care	30	93%	57%	63%
Consumer Discretionary	38	84%	76%	55%
Financial	47	82%	82%	61%
Consumer Staples	22	82%	77%	77%
Industrials	24	79%	75%	88%

CEO LONG-TERM INCENTIVE TRENDS: VALUES AND GRANT TYPES

As in the prior three years' reports, this year's report includes an analysis of CEO long-term incentive values, covering years 2002 through 2006. The sample is consistent year-over-year and represents those companies from the Top 250 where the CEOs have been in their roles for at least five years (116 in total). Stock options are valued using company weighted-average fair values; restricted stock is valued at the grant-date share price; performance shares are valued at the grant-date share price and target number of shares; performance unit target values are discounted at five percent for the number of years in the performance period.

As shown below, median long-term incentive values to these "same sample" CEOs have increased four percent on an average annualized basis between 2002 and 2006, including a dip in 2003. At the 75th percentile, values have increased three percent over the past five years on an average annualized basis.

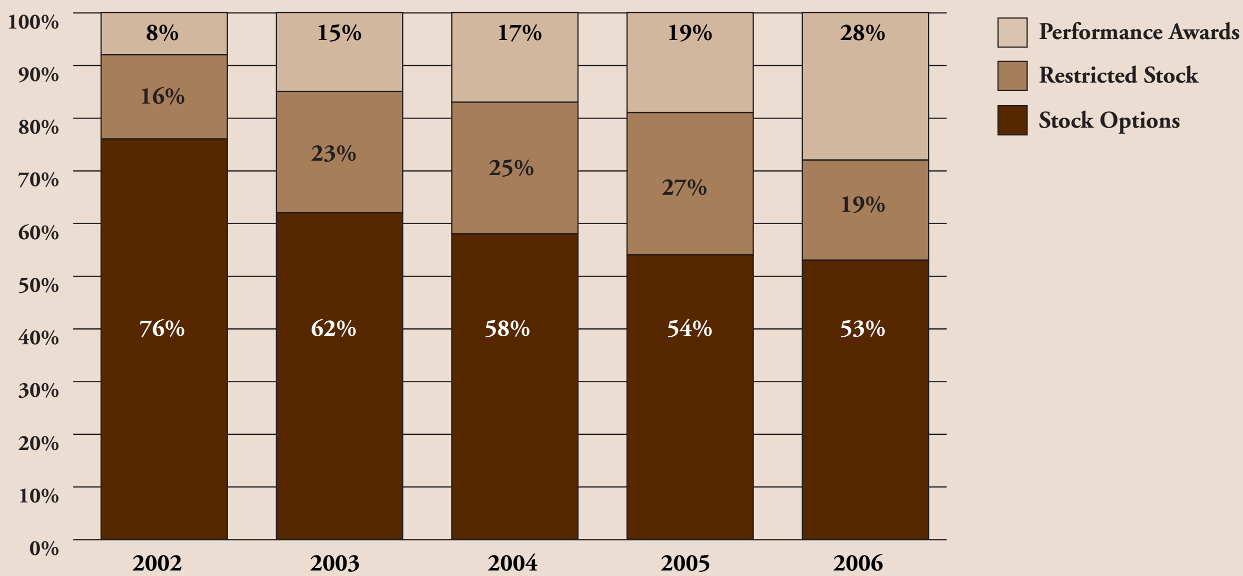
CEO LTI Values, 2002 - 2006 ($000s)



CEO GRANT MIX AS PERCENTAGE OF OVERALL LONG-TERM INCENTIVE VALUE

The chart below compares the percentage of total long-term incentive value delivered in various grant types to CEOs from 2002 to 2006. As the analysis of grant type usage indicated over a similar time period, the mix of long-term incentives delivered to the CEO also shifted away from options from 2002 to 2006. Long-term incentive grant mix continued to trend towards 50 percent options and 50 percent full-value awards (i.e., restricted stock and performance awards). The percentage of LTI values in CEO packages consisting of performance awards continues to grow at a fast rate.

CEO Grant Type as a Percentage of Total LTI Value, 2002 - 2006



GRANT STRUCTURE

The Top 250 analysis also includes other long-term incentive grant terms and provisions, including the length of stock option terms, vesting provisions, and performance measures.

Stock Option Term – An overwhelming majority of the Top 250 companies grant stock options with a 10-year option term. Of the Top 250 companies that grant stock options, 81 percent have a 10-year option term and approximately 19 percent have an option term of less than 10 years, with seven years representing the most common alternative to the traditional 10-year term. The shorter term may be utilized for potential reduction in accounting expense and to help manage potential shares outstanding.

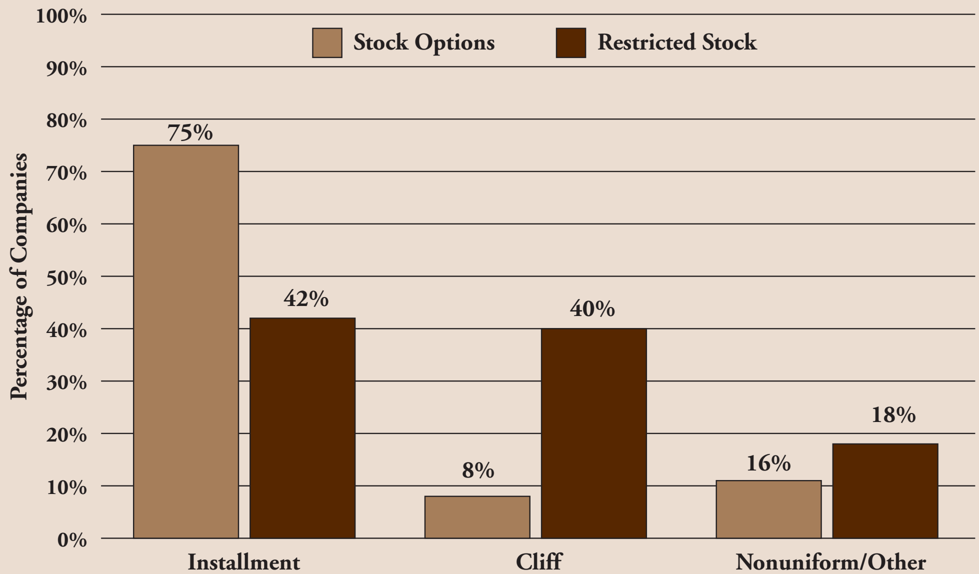
Option Term	Percent of Companies Using
> 10 year	0%
10 year	81%
9 years	<1%
8 years	4%
7 years	11%
6 years	3%
5 years	1%

VESTING SCHEDULES

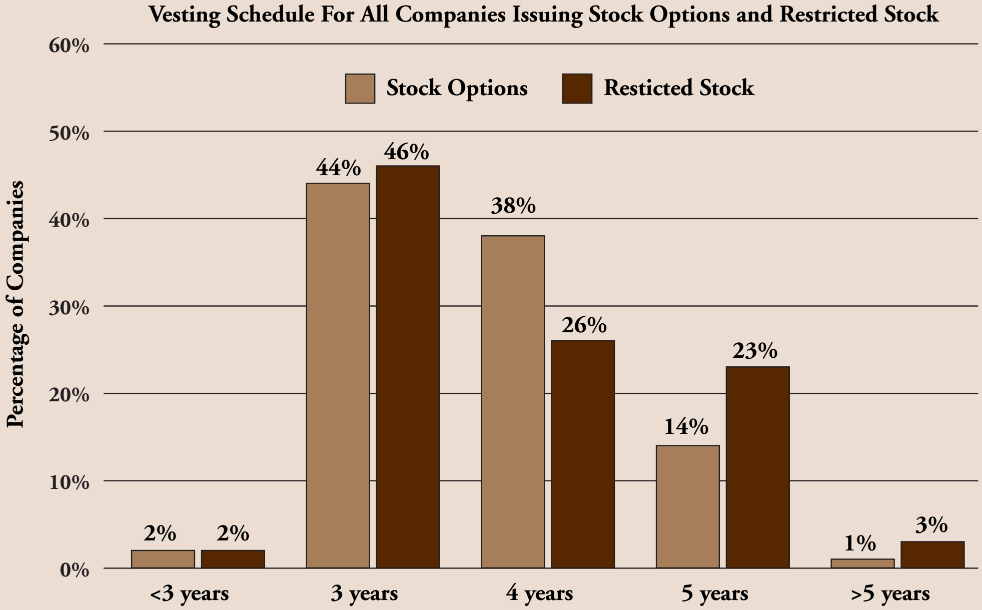
Type of Vesting – Seventy-five percent of the Top 250 companies issuing stock options apply uniform (equal installment) vesting to their stock option grants. Restricted stock grants, in contrast, are as likely to have uniform vesting as "cliff" vesting (i.e., 100% vesting after a specified number of years).

Vesting Period – Three years is the most common vesting period for both stock options (44% of companies) and restricted stock (46% of companies). More than half of the companies, however, choose vesting periods equal to or greater than 4 years for options and restricted stock.

Vesting Type For All Companies Issuing Stock Options and Restricted Stock



Vesting Schedule For All Companies Issuing Stock Options and Restricted Stock



Performance Award Measures – Forty-nine percent of the Top 250 companies granting performance awards use some type of "profit" measure as a basis for award payout. Other prevalent measures of performance include capital efficiency ratios (including return on equity and return on assets) as well as total shareholder return.

Category	Performance Measures	Percent of Companies Using
Profit	Earnings per share, net income, EBIT/EBITDA, operating income, pretax profit	49%
Capital Efficiency	Return on equity, return on assets, return on operating income, return on capital, economic value added	35%
Total Shareholder Return	Stock price appreciation plus dividends (relative and absolute)	32%
Revenue	Revenue, revenue growth	16%
Cash Flow	Cash flow, cash flow growth	7%
Other	Safety, quality assurance, new business, discretionary, individual performance	13%

Performance Award Period – The vast majority of the Top 250 companies (eighty-one percent of companies) issue performance awards using a three-year period for measuring performance.

Cycle Length	Percent of Companies Using
> 3 years	10%
3 years	81%
< 3 years	9%

ANNUAL INCENTIVES PAID IN STOCK

Annual incentives paid in stock or stock options seek to further align executive pay with shareholder interests and provide increased retention through vesting. Twelve percent of the Top 250 companies disclose provisions for mandatory payment of annual incentives in the form of equity. This practice is most prevalent among financial services companies. Note that mandatory payment may not occur every year.

In addition, some companies allow executives to voluntarily receive stock grants in lieu of earned cash compensation. These programs offer either full-value stock (often through deferral plans) or stock options, and may provide a premium or price discount to encourage participation. For instance, if the premium is 25 percent of the amount elected the executive would receive $1.25 of stock for every $1 of deferred bonus.

The following are the *typical* characteristics of mandatory payments in stock:

- **Payment in stock or stock units** typically represents a specified percent of the award payout. Twenty-nine of the Top 250 companies disclose the payment of at least a portion of annual incentives in shares of stock or stock units. These shares are typically subject to vesting requirements.
- **Payment in stock options** is used at three of the Top 250 companies with two of the companies also using payment in stock.

MANDATORY PAYMENT OF ANNUAL INCENTIVES IN STOCK OR STOCK UNITS

Stock or Stock Units

Allergan	Gannett	PNC Financial Services
American Electric Power	Goldman Sachs Group	SLM
Bank of America	Johnson & Johnson	Sprint Nextel
Bank of New York	J. P. Morgan Chase	Starwood Hotels & Resorts
Bear Stearns	KeyCorp	State Street
CA	Lehman Brothers Holdings	SYSCO
Citigroup	Merrill Lynch	United Parcel Service
E.I. du Pont de Nemours	Morgan Stanley	Weatherford International
EOG Resources	National City	Wellpoint
Franklin Resources	News Corp	

Stock Options

Bear Stearns	Morgan Stanley	Yahoo!

GRANT PRACTICE EVOLUTION

While executive long-term incentive grant practices have been undergoing a structural shift, it is important to recognize that grant usage has continually evolved over the years. Year-over-year changes may be minimal, but comparing long-term incentive grant type usage in our 1987 and 2007 reports illustrates clearly the transfer of long-term incentive value between grant types:

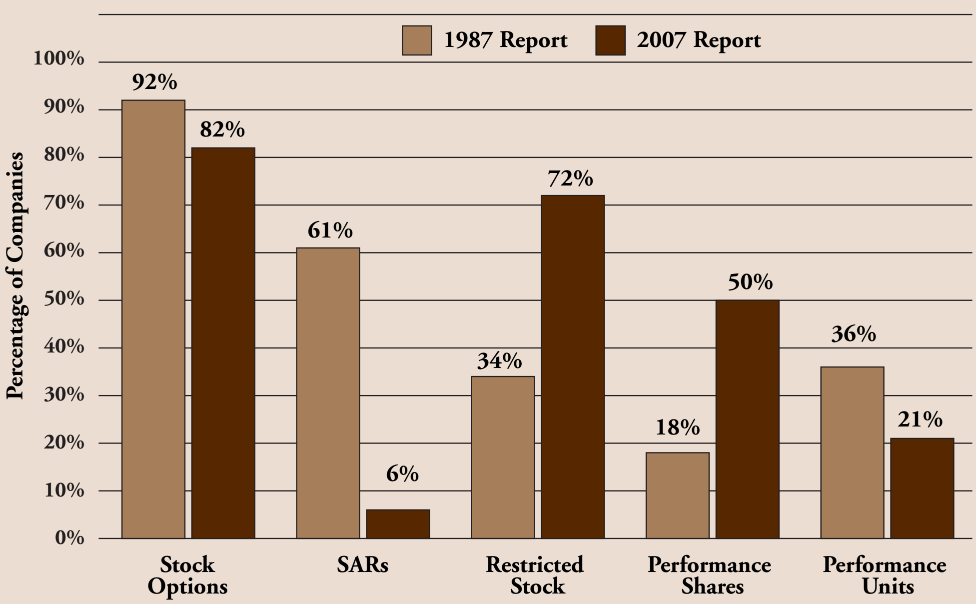
STOCK OPTIONS – Similar to today's practice, stock options were the most prevalent grant type used among companies covered in the 1987 Report with ninety-two percent of companies using options. In 2007, eighty-two percent of Top 250 companies grant stock options to their executives.

SARs – Twenty years ago, SARs were also very prevalent. Following regulatory rule changes in the mid-1990s, these grant types became nearly extinct. But under the new accounting rules, where stock-settled SARs have the same fixed grant-date expense implications as stock options, SARs have begun to reappear.

RESTRICTED STOCK – Twenty years ago, restricted stock was used by only one third of large companies, compared to nearly three-quarters today, due in large part to the associated accounting expense versus no expense for stock options under APB Opinion 25.

PERFORMANCE AWARDS – An interesting shift over the past two decades has been the move from cash-denominated, long-term performance awards, which were relatively common in the mid-1980s, to a preference for stock-denominated awards today. Among other factors, this preference for cash-denominated awards was based on the lack of confidence in stock-based awards in the 1980s following the "stagflation" of the 1970s. Also, performance-vesting stock options were used by almost 20 percent of companies as recently ago as 1999, but now are used by only four percent.

Executive Long-Term Incentive Grant Type Evolution



EXECUTIVE STOCK OWNERSHIP GUIDELINES

OVERVIEW – For the fourth year in a row, the prevalence of formal executive stock ownership policies continues to increase as companies take steps to strengthen the alignment of executive and shareholder long-term interests. Among the Top 250 companies, eighty-three percent disclosed stock ownership guidelines that encourage or require executives to own a specified amount of company stock up from seventy-one percent last year and fifty-seven percent three years ago. The most recently filed proxy disclosures require stock ownership guidelines and retention ratios to be disclosed if they exist which may account for the surge in their prevalence. In prior years, disclosure was voluntary, and the actual prevalence of ownership policies may have been slightly higher than reported.

The basic types of ownership guidelines can be categorized as follows:

MULTIPLE OF COMPENSATION – Ownership guidelines are most commonly expressed as a multiple of an executive's compensation, with the multiple increasing with pay level. This approach is used by fifty-four percent of companies with guidelines. A multiple of salary is significantly more common than a multiple of total annual compensation (e.g., salary plus bonus) but for purposes of this study the two categories have been grouped together.

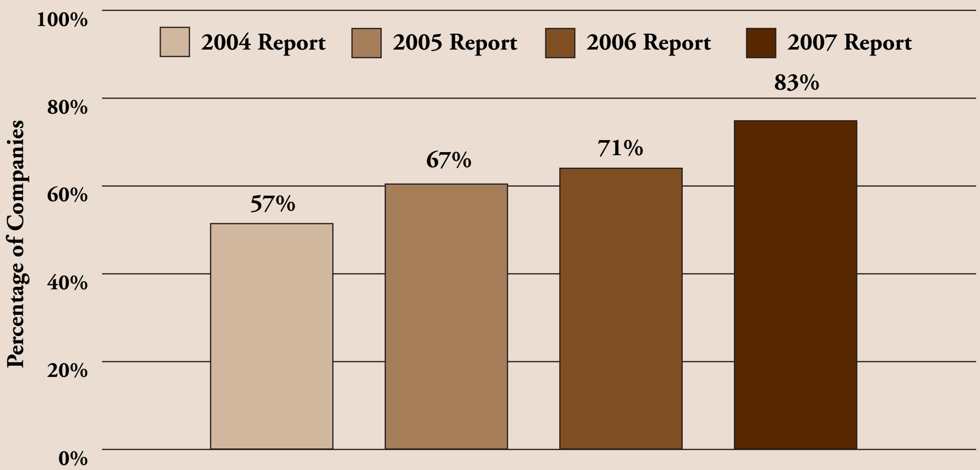
FIXED NUMBER OF SHARES – Other guideline approaches are expressed as a number of shares or fixed dollar value and are used by eleven percent of companies with guidelines. A fixed-share approach avoids potential issues with a multiple-of-compensation approach where stock price fluctuations can dramatically alter over a short period of time whether the guidelines are met or not.

RETENTION APPROACHES take two general forms: retention ratios or holding periods. Retention ratios require executives to retain a certain percentage of "profit shares" from stock options that are exercised or other stock awards that are earned. Profit shares are the shares remaining after payment of the option exercise price and taxes owed at exercise, vesting of restricted stock, or earnout of performance shares. Under the holding-period approach, shares obtained from equity awards must be held for some specific period of time. In total, retention and holding-period approaches are used by thirty-five percent of companies with guidelines. Some companies use a retention ratio or holding period in addition to other types of guidelines. For example, a company using a multiple-of-salary guideline may also require executives to retain 100 percent of option profit shares for one year after exercise. Alternatively, some companies apply a retention ratio until multiple of compensation or fixed-share ownership requirements are met.

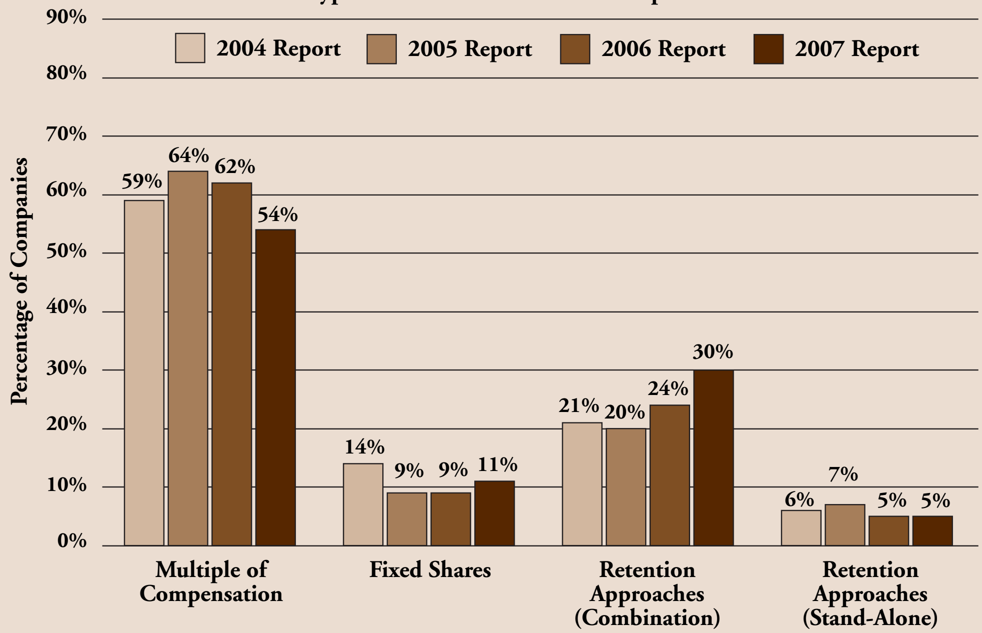
Thirty percent of companies use a retention approach in combination with another ownership guideline, while five percent use a retention approach as a stand-alone guideline. Increases in retention ratios are a natural outcome of the push to implement formal stock ownership guidelines for corporate governance purposes. The primary advantage of the retention ratio is that there is no need for a compliance deadline, and consequently, there is no need for executives to make out of pocket purchases to meet the guidelines. Therefore, the decrease in ownership guidelines based solely on multiples of compensation (from sixty-two percent in 2006 to fifty-four percent in 2007) and the increase in ownership guidelines tied to retention ratios are correlated.

The following exhibits show the prevalence of ownership guidelines at the Top 250 companies, as well as the types of approaches used.

Prevalence of Executive Stock Ownership Guidelines



Types of Executive Stock Ownership Guidelines



SUMMARY OF GRANT USAGE BY COMPANY

EXECUTIVE LONG-TERM INCENTIVE GRANTS

● = Continuing ▲ = New or Prospective Grant Type ❍ = Dropped

	Appreciation: Stock Options	Appreciation: SARs	Full-Value: Restricted Stock	Full-Value: PARSAPs	Full-Value: Performance Shares	Full-Value: Performance Units
3M	●					●
Abbott Laboratories	●		●		▲	
ACE Limited	●		●		●	
Adobe Systems	●				●	
AETNA	❍	●	▲			❍
AFLAC	●		●		▲	
Air Products & Chemicals	●		●		●	
Agilent Technologies	●				●	
Alcoa	●		●		●	
Allergan	●					
Allstate	●		●			●
Alltel	●		●			●
Altria			●			●
Amazon.com			●			
American Electric Power					●	
American Express	●		●			●
American International Group	●		●		●	●
Ameriprise Financial	●		●			●
Amgen	●					●
Anadarko Petroleum	●		●		●	
Anheuser-Busch	●		●		●	
Apache	●	❍	●		●	
Apple	●		●			
Applied Materials	●		●			
Archer Daniels Midland	●		●			
AT&T					●	
Automatic Data Processing	●		●		▲	
Avon Products	●		●			●
Baker Hughes	●		●			●
Bank of America	●		●			
Bank of New York	●		●		●	
Baxter International	●		●		●	
BB&T	●					●
Bear Stearns	●		●			
Becton Dickinson		●	●		●	
Best Buy	●		●		●	
Biogen Idec	●		●			
Boeing	●					●
Boston Properties			●			
Boston Scientific	●		●			
Bristol Myers Squibb	●		●		●	
Broadcom	●		●			

SUMMARY OF GRANT USAGE BY COMPANY

● = Continuing ▲ = New or Prospective Grant Type ❍ = Dropped

	EXECUTIVE LONG-TERM INCENTIVE GRANTS					
	Appreciation		Full-Value			
	Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
Burlington Northern Santa Fe	●		●		●	
CA	●		●		●	
Campbell Soup			●		●	
Capital One Financial	●		●			
Cardinal Health	●		●			●
Carnival	●		●			
Caterpillar	❍	▲	●			●
CBS	●		●			
Celgene	●					●
Charles Schwab	●		●			●
Chesapeake Energy			●			
Chevron	●				●	
Chicago Mercantile Exchange	●		●			
Chubb			●		●	
CIGNA	●			❍		●
Cisco Systems	●					
Citigroup	●		●			
Clear Channel Communications	●		●			
COACH	●		●			
Coca-Cola	●				●	
Colgate Palmolive	●		●		●	●
Comcast	●		❍		▲	
ConocoPhillips	●				●	
Corning	●		●			
Costco	❍		▲			
Countrywide Financial	❍	▲	●	❍		
CSX	❍		●		●	
CVS Caremark	●		●			●
Danaher	●		●		●	
Deere	●		●			●
Dell	●					●
Devon Energy	●		●			
DirecTV Group					●	
Dominion Resources			●	❍		●
Dow Chemical	●		●		●	
Duke Energy			●	❍	●	
E.I. du Pont de Nemours	●		●		●	
eBay	●				▲	
Edison International	●		●		●	
Electronic Arts	●		▲			
Electronic Data Systems	●				●	
EMC	●		●	●	●	

SUMMARY OF GRANT USAGE BY COMPANY

EXECUTIVE LONG-TERM INCENTIVE GRANTS

● = Continuing ▲ = New or Prospective Grant Type ❍ = Dropped

	Appreciation		Full-Value			
	Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
Emerson Electric	●				●	
Entergy	●				●	
EOG Resources	❍	▲	●			
Equity Residential	●		●		❍	
Exelon	●				●	
ExxonMobil			●			❍
Federated Dept. Stores	●		●		●	
FedEx	●		●			●
Fifth Third Bancorp		●	●		●	
First Data	●		●	●		●
FirstEnergy			●	●	●	
Ford Motor	●		●		●	
Forest Laboratories	●					
FPL Group	●		●		●	
Franklin Resources	●		●		●	
Freddie Mac	●		●			
Gannett	●		●		●	●
Gap	●		●			
General Dynamics	●		●			
General Electric	●		●		●	●
General Mills	●		●			
General Motors	●		●		●	
Genworth Financial	●	▲	●		▲	●
Genzyme	●					
Gilead Sciences	●				▲	
Goldman Sachs	●		●			
Google	●		●			
Halliburton	●		●			●
Harley Davidson	●			●		
Harrahs Entertainment	●	▲	❍	●		
Hartford Financial Services	●		●		●	
Heinz (H.J.)	●		●	●		●
Hess	●		●			
Hewlett Packard	●		●			●
Hilton Hotels	●		●		●	
Home Depot	❍		●		▲	●
Honeywell International	●		●			●
Host Hotels & Resorts			●		●	
Illinois Tool Works	●		●			
Ingersoll-Rand	●					
Intel	●		●			
International Business Machines	●		●		●	

SUMMARY OF GRANT USAGE BY COMPANY

	EXECUTIVE LONG-TERM INCENTIVE GRANTS					
	Appreciation		Full-Value			
	Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	● = Continuing		▲ = New or Prospective Grant Type		❍ = Dropped	
International Game Technology	●		●		▲	
International Paper					●	
JC Penney	●		●			
Johnson & Johnson	●		●			●
Johnson Controls	●		●			●
J.P. Morgan Chase	❍	●	●			
Kellogg	●		●		▲	
KeyCorp	●		●		●	
Kimberly-Clark	●		●		●	
Kohl's	●		●			
Kroger	●		●			●
Legg Mason	●		●			
Lehman Brothers Holdings	●		●			
Lilly (Eli) & Co.					●	
Lincoln National	●				●	
Lockheed Martin	●		●		▲	●
Loews	❍	▲				
Lowes Companies	●		●	●		
M&T Bank	●		▲			
Marathon Oil	●		●			●
Marriott International	❍	●	●			
Marsh & McLennan Companies	●		●		●	
McDonalds	●		●		●	●
McGraw-Hill Companies	●				●	
McKesson	●		●			●
Medco Health Solutions	●		●			
Medtronic	●		●		●	●
Mellon Financial	●		●	❍	●	
Merck	●		●		●	
Merrill Lynch	❍		●		●	
MetLife	●				●	
Microsoft			●		●	
Monsanto	●				●	
Moodys	●		●	●		
Morgan Stanley	●		●			
Motorola	●					●
National City	●		●			●
Network Appliance	●		●			
Newmont Mining	●		●			▲
News Corp.	●		●			
Nike	●					●
Nordstrom	●				●	

SUMMARY OF GRANT USAGE BY COMPANY

	EXECUTIVE LONG-TERM INCENTIVE GRANTS					
	Appreciation		Full-Value			
	Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	● = Continuing		▲ = New or Prospective Grant Type		❍ = Dropped	
Norfolk Southern	●		●	❍	●	
Northern Trust	●		●		●	
Northrop Grumman	●				●	
Nucor	❍		▲		●	
Occidental Petroleum	●	●	●		●	
Omnicom Group	●		●		❍	
Oracle	●					
PACCAR	●		●			●
Paychex	●		▲	▲		
PepsiCo	●		●		●	●
Pfizer	●		●		●	
PG&E	❍		●	▲	●	
PNC Financial Services	●				●	
PPL Corp			●			
Praxair	●				▲	
Principal Financial	●				●	
Proctor & Gamble	●		●			●
Progressive			●		●	
ProLogis	●		●		●	
Prudential Financial	●		●		●	
Public Service Enterprise	●		●		●	
Public Storage	●		●			
Qualcomm	●					
Qwest Communications	●		●		▲	
Raytheon			●		●	
Regions Financial	●		●	❍	▲	
Reynolds American					●	●
Safeway	●		❍			
Schering-Plough	●		●		●	❍
Schlumberger Limited	●		●			
Sears Holding	❍		●		❍	●
Sempra Energy	●		❍		●	
Simon Property Group			●			
SLM	●		●		●	
Southern Co.	●					●
Spectra Energy	❍		●		●	
Sprint Nextel	●		●		●	●
St. Jude Medical	●					
Staples	●		●		●	
Starbucks	●					
Starwood Hotels & Resorts	●		●	●		
State Street	●	●			●	

SUMMARY OF GRANT USAGE BY COMPANY

EXECUTIVE LONG-TERM INCENTIVE GRANTS

● = Continuing ▲ = New or Prospective Grant Type ❍ = Dropped

	Appreciation		Full-Value			
	Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
Stryker	●					
Sun Microsystems	●		▲			
SunTrust Banks	●		●	❍		●
Symantec	●		▲			
SYSCO	●					●
Target	●				●	
Texas Instruments	●		●			
Thermo Fisher Scientific	●		●			
Time Warner	●		●		▲	
Transocean	●				●	
Travelers	●		❍		●	
Tyco International	●		●		●	
Union Pacific	●		●		●	
United Parcel Service	●		●		●	
United Technologies		●			●	
UnitedHealth	●					●
US Bancorp	●					
Valero Energy	●		●		●	
Verizon Communications			●		●	
Viacom	●		●		▲	
Vornado Realty Trust	●		●		●	
Wachovia	●		●			
Walgreen	●		●			
Wal-mart Stores	●				●	
Walt-Disney	●		●		●	
Washington Mutual	●		●		●	
Waste Management			●		●	
Weatherford International	●		●			
WellPoint	●		●			
Wells Fargo	●					
Western Union	●		●			
Weyerhaeuser	●				▲	
Williams	●		●		●	
Wm. Wrigley Jr.	●		●		●	
Wyeth	●				●	
Xerox					●	
XTO Energy	●					
Yahoo!	●		●		●	
Yum! Brands	❍	▲	●			
Zimmer Holdings	●				●	

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:
- Restricted Stock
- Performance Shares
- Performance Units

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*.

DEFINITION OF LONG-TERM INCENTIVE GRANT TYPES

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 percent of market value at the time of grant and vest by continued service, although variations of this "plain-vanilla" type option are used in practice:

- **Performance-Accelerated Stock Options ("PASOs")** are options that have a set service-vesting schedule, but may be exercised earlier if specified performance criteria are met, e.g., attaining specific earnings or stock price goals. Options with performance-accelerated vesting provisions eventually become exercisable later in their option term by continued service regardless of attainment of the performance goals.
- **Performance-Vesting Stock Options** are considered to have "vesting with teeth" because the options are forfeited if performance criteria are not met prior to the expiration 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 based on the movement of the index itself.

Stock Appreciation Rights ("SARs") are rights to receive the increase between the grant price and market price of the company stock, which can be settled in stock or cash. This survey covers three types of SARs:

- **Tandem SARs** are granted "in tandem" with stock options with the exercise of the SAR canceling the option, and vice versa.
- **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 historically were used to offset income taxes on the related stock option gain, as well as the tax on the SAR payment.

Full-Value Grants

Restricted Stock consists of grants of actual shares of stock or stock "units" (commonly referred to as "RSUs") that are subject to transfer restrictions and risk of forfeiture until vested by continued employment. Dividends or dividend equivalents are typically paid during the restriction period, on either a current or deferred basis. If deferred, the dividends or equivalents are often converted into additional restricted shares, subject to the same restrictions and risk of forfeiture as the underlying award.

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. As with PASOs, PARSAPs eventually vest based on continued service alone.

Performance Shares are grants of actual shares of stock or stock "units" whose payment is contingent on performance as measured against predetermined objectives over a multi-year measurement period, 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.

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 measurement period. Actual payouts may be in cash or stock.

COMPANY PROFILE

Frederic W. Cook & Co., Inc. is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, our firm has served more than 2,000 corporations, including 24 percent of the Fortune 200 during 2006, in a wide variety of industries from our offices in New York, Chicago, Los Angeles, San Francisco and Atlanta. Our primary focus is on performance-based compensation programs that help companies attract and retain business leaders, motivate and reward them for improved performance, and align their interests with shareholders. Our range of consulting services includes:

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