FREDERIC W. COOK & CO., INC.

THE 2008 TOP 250

Long-Term Incentive
Grant Practices for Executives

OCTOBER 2008

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Compared to prior years, 2007 was a year of clarification and refinement in the world of executive compensation. Over the last year, America's largest 250 corporations had the chance to reflect on and react to the significant changes brought about in recent years, such as the overhaul of executive compensation proxy disclosure rules, new deferred compensation rules, and revisions in the accounting treatment of long-term incentive compensation. Simultaneously, investor initiatives and political developments continued to exert influence over executive compensation, especially on the design and structure of long-term incentive programs.

As we moved into the second year of the new SEC proxy disclosure rules, corporations had the opportunity to analyze previously unavailable peer company data, such as details on performance-based long-term incentive programs. In addition, legislation for an advisory vote on executive compensation was introduced in 2007, both presidential candidates have indicated support of "Say on Pay," and pension funds and activist investors are using shareholder proposals to champion pay-for-performance principles.

The combination of these forces accelerated the adoption of performance-linked long-term incentive programs. The movement from time-based to performance-based award vehicles has surpassed the shift from stock options to full-value shares as the key indicator that corporations' use of long-term incentive awards is evolving. This transition and other trends that characterize the evolution in executive long-term incentive programs, such as the continued increase in use of executive stock ownership guidelines, are presented in this report.

Key findings from the Frederic W. Cook & Co. 2008 Top 250 report include the following:

- Stock option usage continues to decline, although options remain the single most common long-term incentive vehicle.
- Stock options are being replaced primarily by full-value shares that are earned by continued service and achievement of performance contingencies (performance shares).
- Full-value shares with performance contingencies (performance shares) are now as common as full-value shares that vest by continued service alone (restricted stock).
- Long-term performance awards (performance shares and performance units) are now almost as common as stock options and represent nearly as much of CEOs' total long-term incentive values as stock options.
- Imposing performance requirements on the vesting of stock options increased in 2007, although most other stock option design variations (reloads, discounts, and tandem grants) disappeared in practice.
- Median CEO long-term incentive values continued to increase, but 75th percentile values leveled off.
- The prevalence of stock ownership guidelines for executives continues to increase with approaches combining mandatory share ownership and retention ratios showing the fastest growth.

The details underlying these findings for 2007 are presented, along with additional analyses and information, on the following pages. Given the economic instability and uncertainty being experienced in 2008, it will be interesting to see whether the trends toward more performance contingencies, less time vesting, and declining stock option usage will continue to be reflected in next year's report.

OVERVIEW AND BACKGROUND

Since 1973, Frederic W. Cook & Co. has researched and published annual reports on long-term incentive grant practices for executives. This report, our 36th 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 29, 2008) 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
- Long-term incentive grant types by industry
- Long-term incentive grant type evolution
- CEO long-term incentive grant values and mix
- Payment of annual incentives in equity
- Executive stock ownership guidelines

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 public documents filed with the Securities and Exchange Commission including proxy statements and Form 10-Q, 10-K, and 8-K filings.

Note that comparisons to prior-year practices (other than those relating to the CEO analysis) do not reflect a constant-company population. Inclusion in this report varies depending on company size and recent corporate actions (such as mergers and acquisitions). Of the 2008 Top 250 companies, 30 are new to this year's report (twelve percent). As a result of the recent boom in oil-related industries, the 2008 Top 250 contains several new energy companies. As such, "trend" data can be influenced by such changes in the company sample from year-to-year, as well as by actual changes in grant usage. For the CEO analysis, however, the sample is the same for all years covered (2003 to 2007), although this list does differ somewhat from that in last year's Top 250 report.

In addition, the definition of performance shares was changed in this year's Top 250 report to include restricted stock with a one-year performance period (past years' reports categorized these grants as restricted stock). For a description of the revised methodology, refer to the *Appendix* which provides a detailed explanation of the methodology change as well as analyses based on the old methodology to allow for additional comparison with prior years' reports.

In some circumstances, totals may not add 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 in the current year or past years and there is no evidence that this granting practice has been discontinued, or if the company indicates that the grant type will be used prospectively.

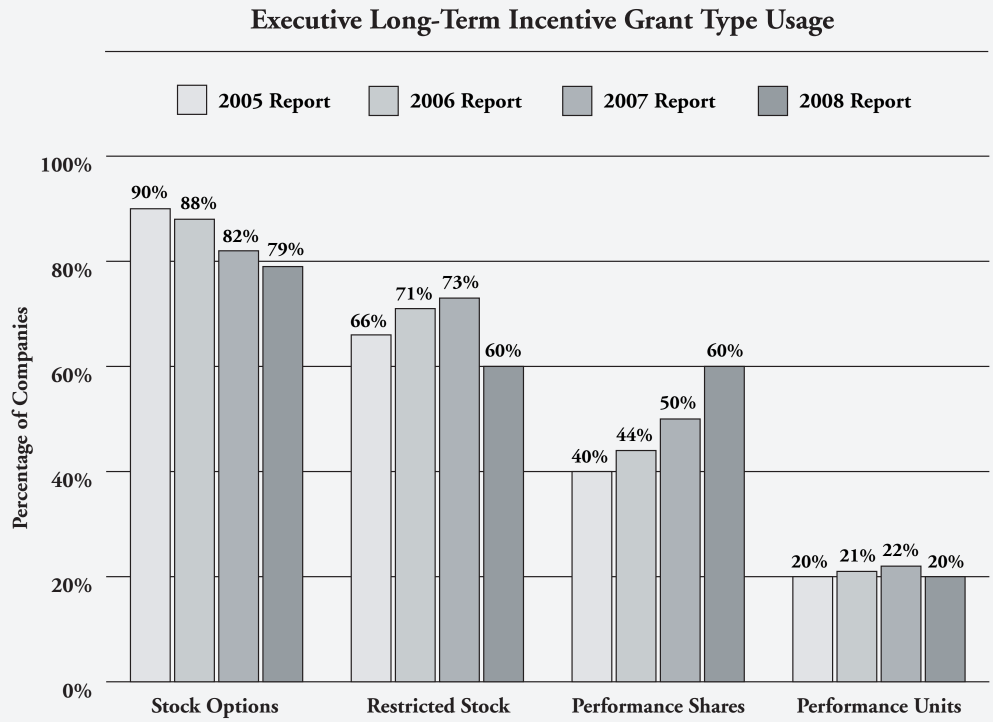
To be considered a "long-term incentive" for purposes of this report, a grant must possess the following general characteristics:

- 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 one executive or a very small or select group of executives. A grant with *limited frequency* is an award that is not part of a company's typical grant practice 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 (e.g., annual grants of performance shares made only to the CEO) may be considered a long-term incentive, and vice versa (e.g., one-time grants made to all executives).
- 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 for purposes of this report.
- Grants must reward performance, continued service, or both for a period of more than one year.

To identify trends in long-term incentive grant practices, grants have been classified into one of the following three 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 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. Seventy-nine percent of the Top 250 companies grant stock options. Eight of the Top 250 companies that used stock options in the past dropped 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. It should be noted that, unlike in past years’ reports, the current definition of restricted stock includes only restricted stock with vesting tied to the passage of time. In past years, this definition also included restricted shares with performance-contingent vesting over a one-year performance period which are classified as performance shares in this year’s report to capture the performance-based nature of this grant type. Annual bonuses paid in restricted stock, on the other hand, for which payout levels are determined following a performance period but shares were not previously granted (i.e., “backward-looking” performance awards), continue to be classified as restricted stock. Refer to the *Appendix* for a comparison of grant type usage under the old methodology.

Sixty percent of the Top 250 companies have historically granted or have begun to grant restricted stock in the last year (under the old methodology restricted stock prevalence would have been sixty-six percent). This excludes companies that use restricted stock grants only in hiring situations or as one-time awards under special circumstances. As illustrated in the chart above, restricted stock usage declined in 2008. This decline has been accompanied by an increase in the usage of performance shares.

Performance Shares consist of stock-denominated “shares,” which are earned based on performance over a pre-defined performance period. As mentioned above, this year’s report introduces a new methodology under which restricted shares with a one-year performance period are classified as performance shares, whereas in past reports such awards were categorized as restricted stock. Refer to the *Appendix* for further details. Fifty-three percent of the Top 250 companies have historically granted performance shares, with seven percent beginning to grant performance shares during the latest fiscal year or planning to do so in the next year resulting in performance share prevalence of sixty percent (under the old methodology performance share prevalence would have been fifty-four percent). Over the past four years, performance shares have become increasingly more common and performance shares are the only grant type growing in use. In our 2005 report, only forty percent of the Top 250 companies used performance shares, compared to sixty percent of the Top 250 companies in this year's report.

Performance Units are grants of cash or dollar-denominated "units" which are earned based on performance against predetermined objectives over a pre-defined performance period and may be paid out in cash or stock. Twenty percent of the Top 250 companies have historically granted or have begun to grant performance units in the last year. As illustrated in the chart on the previous page, usage of performance units has been relatively flat since our 2005 report.

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES

Grant Type (See *Appendix* for definitions)	**Percentage of Companies Using Grant Type**			
	2005 Report	**2006 Report**	**2007 Report**	**2008 Report**
Stock Options	**90%**	**88%**	**82%**	**79%**
• Performance	6	3	4	6
– Vesting	*3*	*1*	*2*	*6*
– Accelerated Vesting	*3*	*2*	*2*	*0*
• Restoration (Reload)	6	2	0	0
• Premium	2	1	2	2
• Discount	<1	0	0	0
• Indexed	0	<1	<1	0
SARs	**3%**	**5%**	**6%**	**5%**
• Tandem	<1	<1	0	0
• Freestanding	2	4	6	5
• Additive	0	0	0	0
Restricted Stock	**66%**	**71%**	**73%**	**60%**
• PARSAPs	7	7	4	1
Performance Shares	**40%**	**44%**	**50%**	**60%**
Performance Units	**20%**	**21%**	**22%**	**20%**

STOCK OPTION DESIGN FEATURES

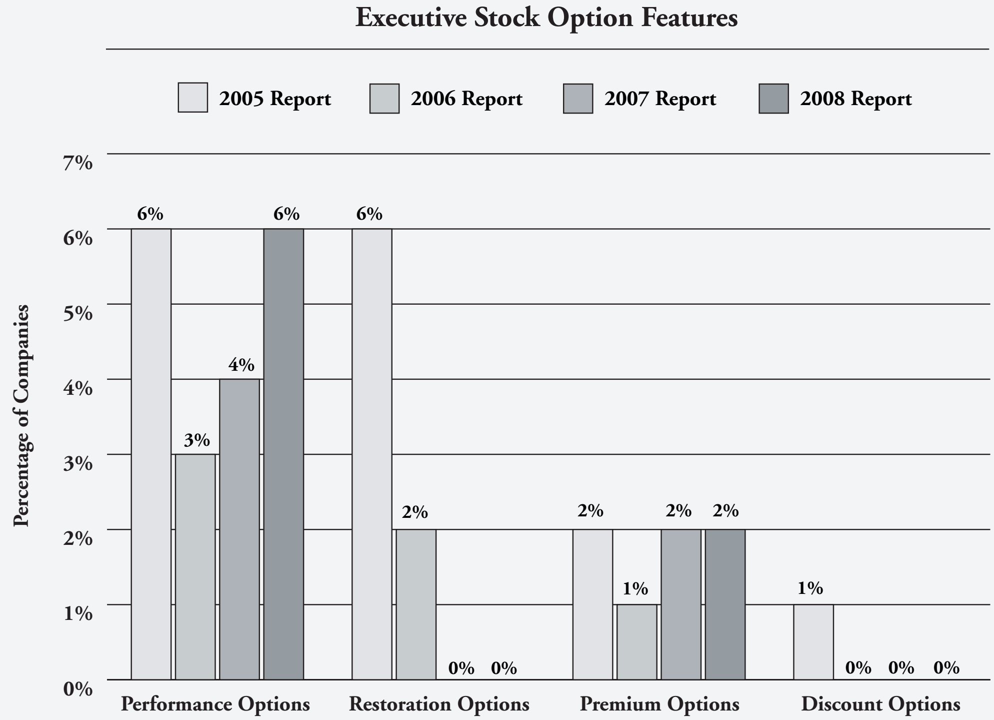
Among the Top 250 companies, eight percent incorporate one or more design features into their stock option grants. The following are the principal option grant design features included in our analysis:

Performance Stock Options are stock options with vesting tied in some manner to specified performance criteria. These options are classified into two categories: 1) performance-vesting options (options that vest only if pre-defined performance criteria are met) and 2) performance-accelerated options (options that have a set service-vesting schedule, but may be exercised earlier if performance criteria are met). Overall, performance stock options are used by six percent of Top 250 companies, compared to four percent last year and three percent in the 2006 report. No companies currently use performance criteria to accelerate vesting, whereas two percent of the Top 250 companies (one-half of the companies granting performance options) used performance-accelerated options last year. 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 presumably is a result of the option expensing mandate in which ultimate vesting is not required to preserve fixed expense.

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 123(R) 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, none of the Top 250 companies use the feature at this time, compared to six percent in our 2005 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, which have an exercise price above market value at the time of grant. Premium options provide executives with added incentives to increase a Company’s stock price and are therefore viewed favorably by investors. However, such options may potentially motivate executives to undertake too much risk and, all else being equal, consume more shares than stock options granted at market prices. Discount stock options have disappeared because of adverse tax consequences under the new deferred compensation rules (Internal Revenue Code 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. Indexed options, although applauded by investor groups, are rarely used due in part to the potential for an exercise price below the price at grant, thereby triggering the same negative tax consequences associated with discount options (discussed above). Complex measurement under FAS 123(R), complicated design and administrative issues, and low employee perceived value relative to FAS 123(R) cost further deter companies from granting these awards. No companies in the Top 250 granted indexed stock options in 2007.



STOCK OPTION DESIGN FEATURES

Performance Stock Options	***Performance-Vesting*** Alcoa Bristol-Myers Squibb EMC General Motors Hartford Financial Services Home Depot Marsh & McLennan Morgan Stanley Motorola Praxair Schering-Plough Transocean Washington Mutual XTO Energy	***Performance-Accelerated Vesting*** None
Premium Stock Options	Charles Schwab Gap Vornado Realty Trust Wachovia	
Indexed Stock Options	None	

OTHER GRANT TYPE VARIATIONS

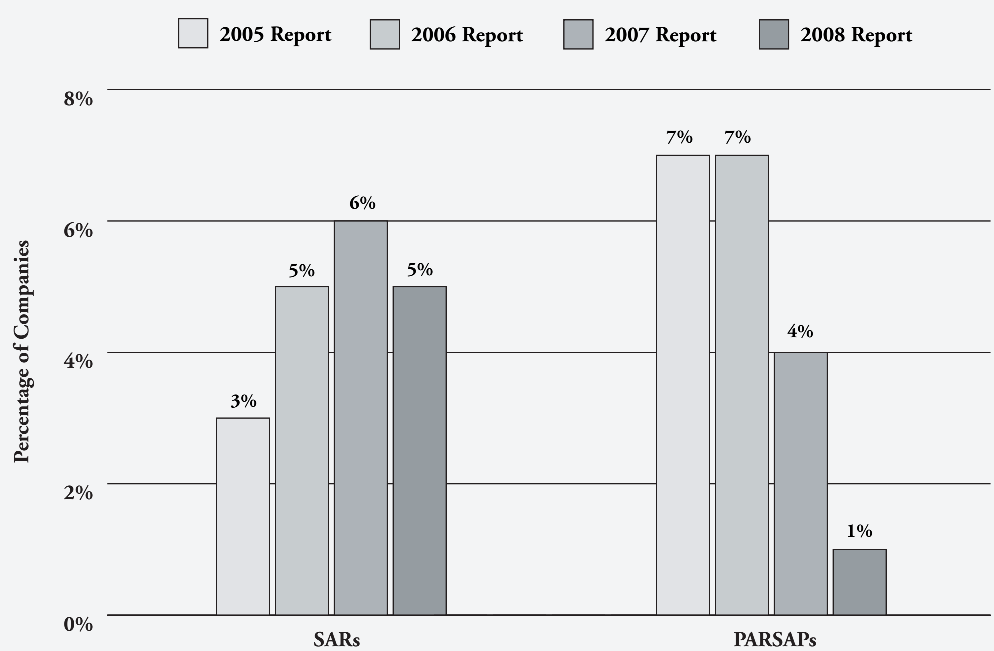
Other grant type variations used by the Top 250 companies include the following:

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. Five percent of companies in the Top 250 either currently grant SARs or anticipate granting SARs next year, as compared to three percent in our 2005 report. Since the 1990s, SARs were rarely granted due to their unfavorable accounting treatment which was eliminated under FAS 123(R). Use of stock-settled SARs may increase since they limit dilution, extend the life of the plan share reserve and ease administration, while retaining the same accounting as stock options. Notwithstanding, further growth in stock-settled SARs may be blunted by the use of the "net issuance" method of exercising stock options, which provides similar benefits to stock-settled SARs. While different types of SARs can be granted, all of the Top 250 companies using SARs grant "freestanding" SARs in replacement of option grants and all are the "stock settled" variety.

- **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. Five percent of the Top 250 companies grant freestanding SARs.
- **Additive SARs** are rights granted in addition to a stock option. None of the Top 250 companies has granted additive SARs since 1996 and are unlikely to do so in the future due to limitations under Internal Revenue Code Section 409A.

Performance-Accelerated Restricted Stock Award Plans ("PARSAPs") represent grants of restricted stock or stock units for which vesting may be accelerated by attainment of specified performance objectives. Currently, one percent of the Top 250 companies grant PARSAPs or plan to in the next fiscal year. Two companies in the Top 250 have discontinued the use of PARSAPs, perhaps due to new accounting rules that eliminated ultimate service vesting under performance plans as a requirement for fixed accounting.

Other Grant Type Variations



OTHER GRANT TYPE VARIATIONS

Freestanding SARs	AETNA Becton Dickinson Caterpillar EOG Resources Fifth Third Bancorp JPMorgan Chase Loews Marriott International Pfizer State Street United Health Group United Technologies Yum! Brands
PARSAPs	Paychex PG&E

GRANT TYPES BY INDUSTRY

As initiated last year, this year's report analyzes the use of long-term incentive grant types in certain sectors, including utilities, industrials, consumer staples, health care, consumer discretionary (non-durable goods), financials, energy, and information technology. Industry categorizations are based on Standard & Poor's Global Industry Classification Standard (GICS) sector codes and include all sectors with more than 15 constituents in the Top 250 companies, as shown in the table below (which is sorted by performance award prevalence).

All of the utilities companies grant performance awards in the form of either performance shares or performance units. Utilities are also much less likely to grant stock options and restricted stock. Companies in the industrials and consumer staples sectors are also very likely to grant performance awards, with usage rates of eighty-nine percent and eighty-three percent, respectively. Stock options are most common among information technology and health care companies, granted by eighty-six percent and eighty-four percent of companies in these two industries, respectively, although down since last year when stock options were granted by ninety-four percent and ninety-three percent of companies in the these two industries, respectively. Companies in the information technology and health care industries also show a very low propensity to award restricted stock with the use of performance awards up significantly from last year, particularly for information technology companies (up from forty-eight percent last year to sixty-two percent this year). Finally, the financials and consumer discretionary companies show the most even distribution among the three award types listed below.

LONG-TERM INCENTIVE GRANT TYPE USAGE BY INDUSTRY

Percentage of Companies Using

Sector	Number of Companies	Stock Options	Restricted Stock	Performance Awards
Utilities	15	67%	33%	100%
Industrials	28	82%	54%	89%
Consumer Staples	24	83%	63%	83%
Health Care	32	84%	56%	72%
Consumer Discretionary	30	77%	70%	70%
Financials	47	74%	70%	68%
Energy	28	82%	68%	64%
Information Technology	29	86%	52%	62%

GRANT TYPE EVOLUTION

While executive long-term incentive grant practices have been undergoing a structural shift, it is important to recognize that grant types have evolved over the years in response to a wide variety of factors including accounting treatment, economic conditions, regulatory initiatives, and philosophical and social developments. Understanding the past may provide insights on how external factors may shape future practices, which may be particularly useful given the economic instability companies have faced in 2008. Year-over-year changes may be relatively minor, but comparing long-term incentive grant type usage between 1988 and 2008 illustrates the impact of external factors on long-term incentive grant design and delivery:

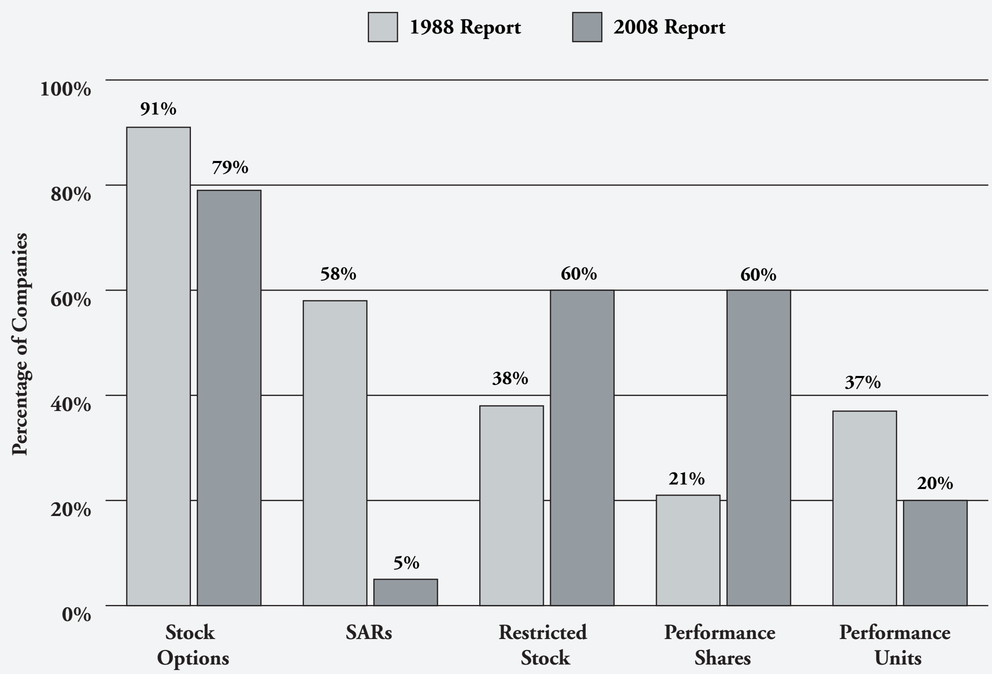
Stock Options – Similar to today's practice, stock options were the most prevalent grant type used among companies covered in the 1988 report with ninety-one percent of companies using options. In 2008, seventy-nine percent of Top 250 companies grant stock options to their executives. Among other factors, option usage has declined over the past several years due to stock price volatility, historically low market valuations and regulatory developments, particularly the adoption of FAS 123(R) accounting rules that imposed an explicit expense for stock options, versus no explicit expense under the predecessor rules of APB Opinion 25.

SARs – Twenty years ago, SARs were also prevalent, with fifty-eight percent of companies using them. Following regulatory rule changes affecting "insiders" in the mid-1990s, these grant types became nearly extinct. Under the new accounting rules, where stock-settled SARs have the same fixed grant-date expense treatment as stock options, SARs have begun to reappear. Today, five percent of companies use SARs.

Restricted Stock – Twenty years ago, restricted stock was used by only thirty-eight percent of large companies, compared to sixty percent 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 late-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 and the onerous mark-to-market accounting treatment of stock-denominated performance awards. Stock-based performance awards were most benefited by the accounting changes under FAS 123(R), which accounts for the significant increase in their prevalence from twenty-one percent in 1988 to sixty percent in 2008. Also, performance-vesting stock options were used by almost twenty percent of companies as recently as 1999, but now are used by only six percent.

Executive Long-Term Incentive Grant Type Evolution

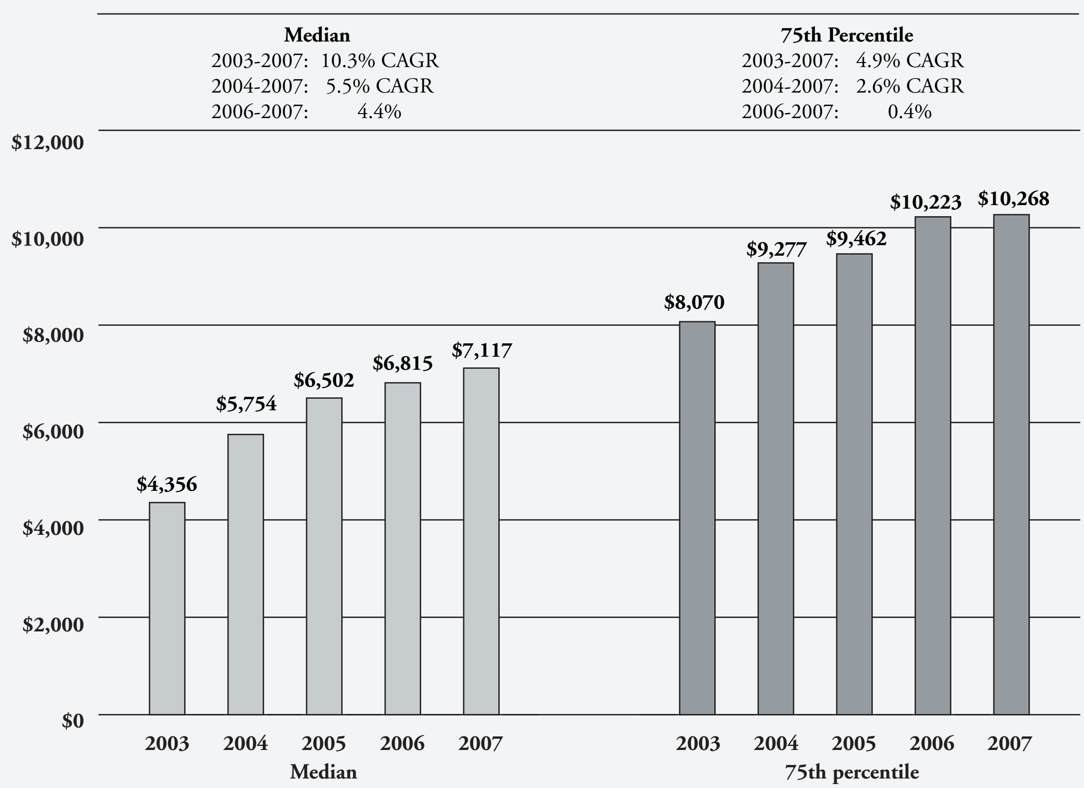


CEO LONG-TERM INCENTIVE TRENDS: VALUES AND GRANT TYPES

As in prior years, this year's report includes an analysis of CEO long-term incentive values, covering the five-year period from 2003 to 2007. 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 full years (118 in total). Stock options are valued using company weighted-average fair values as disclosed in each company's 10-K; 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 previously noted, under this year's methodology performance-based restricted shares with a one-year performance period are classified as performance shares, whereas past years' reports categorized such awards as restricted stock. This change does not affect the CEO total long-term incentive value analysis but slightly changes the CEO grant mix analysis.

As shown in the chart below, median long-term incentive values for these "same sample" CEOs have increased 4.4% year-over-year and 10.3% percent on a compound annualized basis between 2003 and 2007. Between 2004 and 2007, however, the compound annual growth rate (CAGR) was only 5.5%, with the difference between the five-year and four-year rates due to the dip in CEO long-term incentive values in 2003 (as noted in prior years' reports). At the 75th percentile, CEO long-term incentive values have leveled off since last year, consistent with a general trend toward lower differentials between 75th percentile and median pay. On a five-year and four-year compound annual basis, 75th percentile CEO long-term incentive values have increased 4.9% and 2.6%, respectively.

CEO LTI Value, 2003 – 2007 ($000s)



For reference, the table below provides a comparison of CEO long-term incentive growth rates and annualized total shareholder returns for this sample of companies for the three periods discussed on the previous page (total shareholder returns are calculated as of the companies' respective fiscal year-ends).

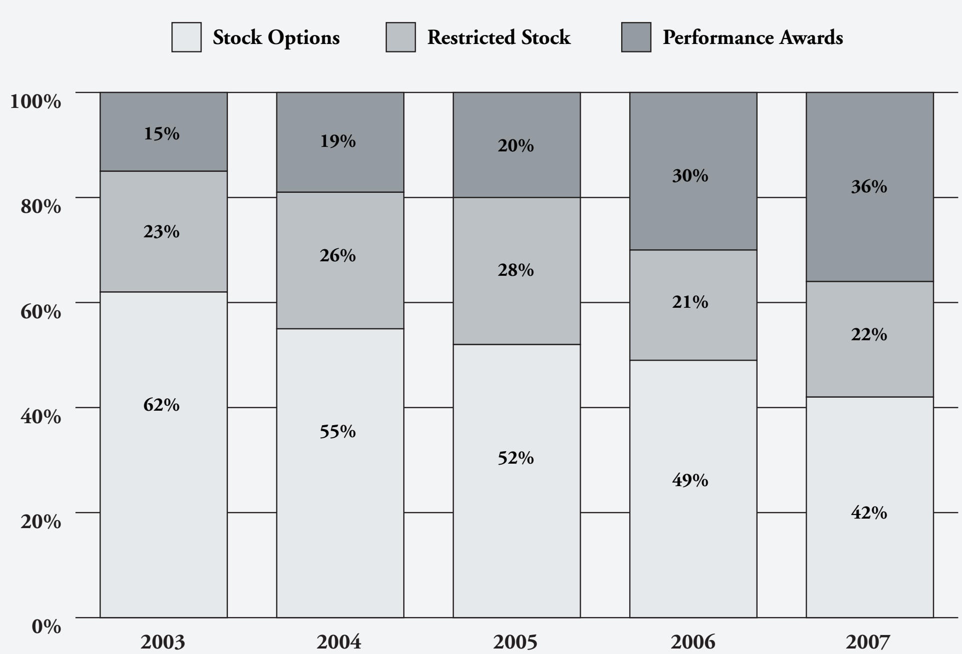
Time Period	CEO LTI Growth – Median	Total Shareholder Return – Median
2006 – 2007	4.4%	17.7%
2004 – 2007	5.5%	15.7%
2003 – 2007	10.3%	19.6%

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 2003 to 2007. Performance awards include both performance shares and performance units. As previously noted, this year's methodology change slightly affects the CEO grant mix analysis but the shift toward performance awards is evident under both the old and new methodologies. Refer to the *Appendix* for a CEO grant mix analysis under the old methodology.

As shown below, the trends in composition of CEO long-term incentive values identified in prior years continued in 2007. The weighting on stock options continued to decline with performance awards up-weighted and now almost equal in value to options. Restricted stock values have remained a relatively constant percentage of the total for the last five years.

CEO Grant Type as a Percentage of Total LTI Value, 2003 – 2007



GRANT STRUCTURE – STOCK OPTIONS AND RESTRICTED STOCK

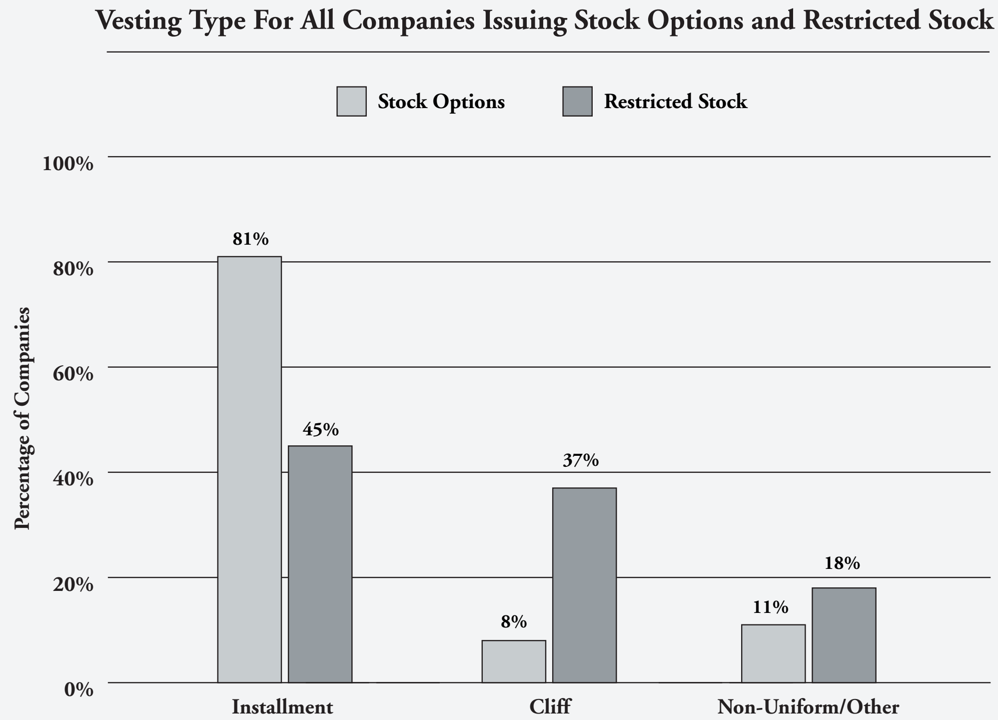
Last year, the Top 250 analysis was expanded to include other key long-term incentive grant terms and provisions, including the length of stock option terms and vesting provisions.

Stock Option Term – An overwhelming majority of the Top 250 companies continue to use the standard ten year option term. Of the Top 250 companies that grant stock options, eighty-one percent have a ten year option term and nineteen percent have an option term of less than ten years, with seven years representing the most common alternative to the traditional ten year term. While the shorter option term may help manage potential shares outstanding, it generally has not materially reduced accounting expense as the "expected life" used in calculating option expense for financial reporting purposes often is not significantly affected by a reduction in the option's "contractual life."

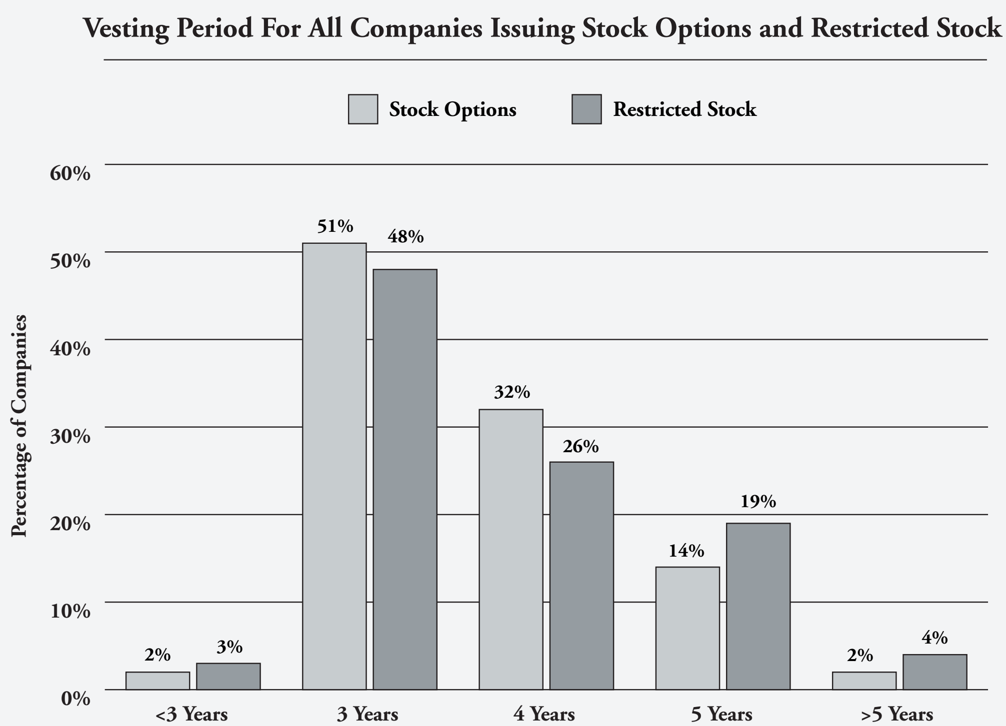
Option Term	Percent of Companies Using
> 10 years	0%
10 years	81%
9 years	<1%
8 years	3%
7 years	12%
6 years	4%
5 years	<1%

VESTING SCHEDULES

Type of Vesting – Eighty-one 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 often used as retentive awards and therefore companies more often apply "cliff" vesting (i.e., 100% vesting after a specified number of years). Thirty-seven percent of the Top 250 companies granting restricted stock awards apply cliff vesting, versus only 8% of the Top 250 companies granting stock options. Eleven percent of companies granting stock options and eighteen percent of companies granting restricted stock use non-uniform vesting (e.g., twenty-five percent vest after year one, twenty-five percent vest after year two, fifty percent vest after year three, etc.).



Vesting Period – Three years is the most common vesting period for both stock options (fifty-one percent of companies) and restricted stock (forty-eight percent of companies). Nearly half of the companies, however, choose vesting periods equal to or greater than four years.



GRANT STRUCTURE – PERFORMANCE AWARDS

The Top 250 report also includes a detailed analysis of performance award features, such as performance measures, performance periods, and payout amounts.

Performance Measures: Categories – Fifty-four 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	54%
Total Shareholder Return	Stock price appreciation plus dividends (relative and absolute)	39%
Capital Efficiency	Return on equity, return on assets, return on operating income, return on capital, economic value added	37%
Revenue	Revenue, revenue growth	19%
Cash Flow	Cash flow, cash flow growth	9%
Other	Safety, quality assurance, new business, discretionary, individual performance	11%

Performance Measures: Number of Measures Used – Fifty-seven percent of performance award programs have one performance measure, while forty-three percent have more than one performance measure.

Number of Measures	Percentage of Programs Using
1	57%
2	31%
3	10%
>3	2%

Performance Award Period – The vast majority of performance award programs used by Top 250 companies (sixty-eight percent of programs) utilize a three-year performance period. Twelve percent of programs use a one-year performance period. Note that awards with a one-year performance period were not included as performance shares in previous reports.

Cycle Length	Percent of Programs Using
1 year	12%
2 years	7%
3 years	68%
4 years	8%
5 years	4%
10 years	1%

Performance Award Maximum Payout – Forty-five percent of performance award programs used by Top 250 companies set maximum payout levels at 200% of target. Maximum payouts range from 100% to 400%, and are distributed as shown in the table below.

Maximum Payout %	Percent of Programs Using
100%	20%
125%	3%
150%	13%
200%	45%
250%	3%
300%	4%
Other	13%

ANNUAL INCENTIVES PAID IN STOCK

Annual incentives paid in stock seek to further align executive pay with shareholder interests and provide increased retention through vesting. Ten percent of the Top 250 companies disclose provisions for mandatory payment of annual incentives in the form of equity, with the equity portion of the annual bonus ranging from fifteen percent to seventy percent of the total annual incentive amount. This practice is most prevalent among financial services companies and may include a premium or price discount to compensate executives for the risk of forfeiture and lack of liquidity associated with these equity payments. For instance, if the premium is twenty-five percent of the amount paid in stock the executive would receive $1.25 of stock for every $1 of bonus. Twelve percent of companies that provide mandatory payment of annual incentives in the form of equity disclosed paying such premiums. Note that mandatory payments may be limited to executives who have not achieved the prescribed stock ownership guidelines and may not occur every year.

Following are the *typical* characteristics of bonus payments in stock:

- **Payment in stock or stock units** typically represents a specified percent of the award payout. Twenty-six of the Top 250 companies disclose the mandatory payment of at least a portion of annual incentives in shares of stock or stock units. Shares issued under such programs are typically subject to vesting requirements.
- **Payment in stock options** is much less common than payment in the form of stock and is currently not a mandatory practice at any of the companies in this year's Top 250 report.

MANDATORY PAYMENT OF ANNUAL INCENTIVES IN STOCK OR STOCK UNITS		
Allergan	General Mills	PNC Financial Services
American Electric Power	Goldman Sachs Group	State Street
Aon	Johnson & Johnson	SYSCO
Applied Materials	JPMorgan Chase	United Parcel Service
Bank of America	Lehman Brothers Holdings	Vornado Realty Trust
Citigroup	Lincoln National	Weatherford International
EOG Resources	Merrill Lynch	Wellpoint
Franklin Resources	Morgan Stanley	Wm. Wrigley, Jr.
Freddie Mac	News Corp.	

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 usually provide a value premium or price discount to encourage participation. Examples of companies that offer premiums or price discounts on voluntary deferrals include: American International Group (25% value premium), Ameriprise Financial (25% value premium), Freeport-McMoRan Copper & Gold (50% value premium), Goldman Sachs (25% price discount), Nucor (25% value premium), PPL Corp. (40% value premium), and Yum! Brands (25% price discount).

EXECUTIVE STOCK OWNERSHIP GUIDELINES

For the fifth 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-six percent disclosed stock ownership guidelines that encourage or require executives to own a specified amount of company stock up from eighty-three percent last year and sixty-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. Most companies using this approach tie ownership levels to salary rather than annual or total direct compensation (i.e., salary plus bonus or salary plus bonus plus long-term incentives). For purposes of this study, all variations under this approach have been grouped together.

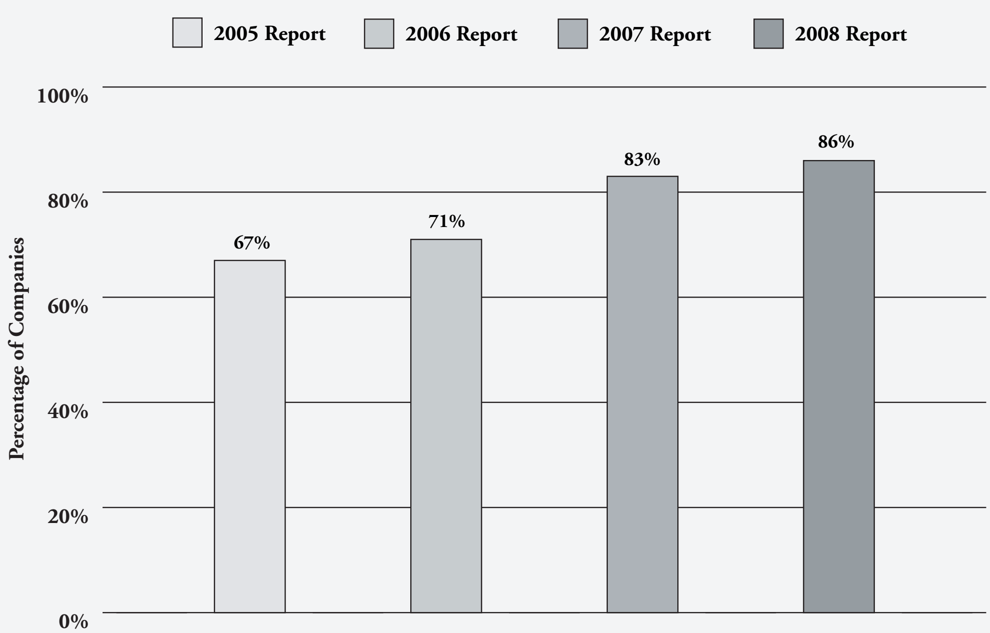
Fixed Number of Shares – Another approach is to express the guideline as a number of shares, as used by nine percent of companies with guidelines. A fixed-share approach avoids potential issues associated with a multiple-of-compensation approach where stock price fluctuations can dramatically alter over 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-seven 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.

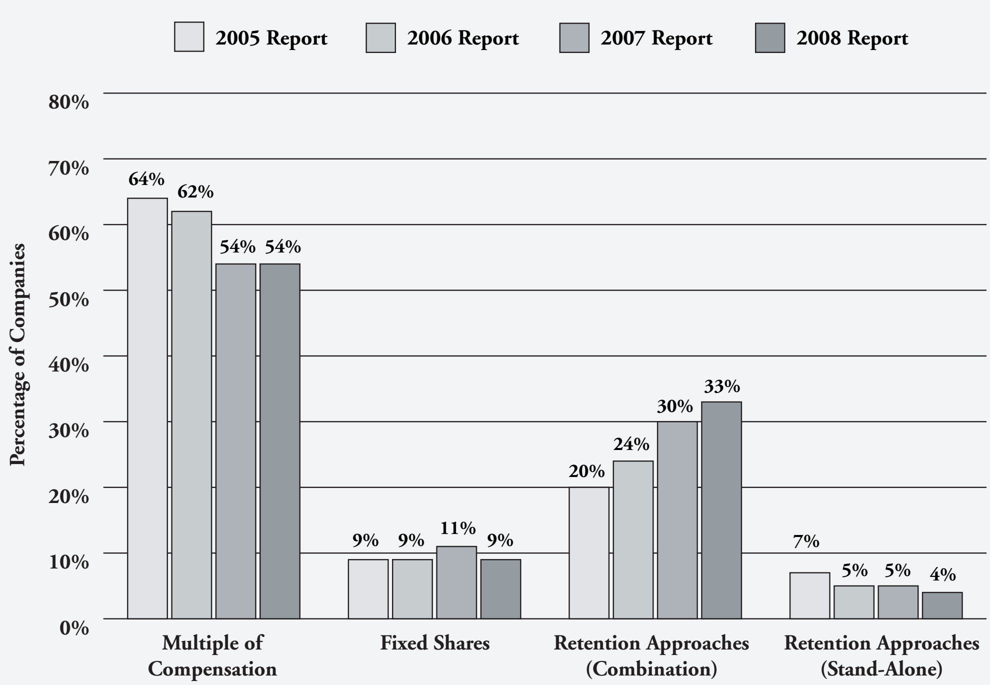
Thirty-three percent of companies use a retention approach in combination with another ownership guideline, while four percent use a retention approach as a stand-alone guideline. Increases in retention ratios are a natural outcome of the push to implement formal stock ownership guidelines for corporate 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 of ownership guidelines based solely on multiples of compensation (from sixty-two percent in 2006 to fifty-four percent in both 2007 and 2008) and the increase of ownership guidelines tied to retention ratios are correlated.

The following charts 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



CEO Ownership Guidelines – This year's Top 250 report was expanded to include an analysis of the levels of ownership that companies require for the CEO position. Companies that use multiple-of-salary approaches (either stand-alone or in combination with retention guidelines) use multiples varying from 2X to 25X, with sixty-four percent of companies using a multiple of 5X base salary.

CEO Salary Multiple	Percent of Companies Using
<4X	4%
4X	6%
5X	64%
6X	8%
7X	4%
8X	4%
10X	7%
>10X	3%

SUMMARY OF EXECUTIVE GRANT TYPE USAGE BY COMPANY

EXECUTIVE LONG-TERM INCENTIVE GRANTS

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

	Appreciation		Full-Value		
	Stock Options	SARs	Time-Based Restricted Stock	Performance Shares	Performance Units
3M	●			▲	❍
Abbott Laboratories	●			●	
ACE Limited	●		●	●	
Adobe Systems	●			●	
AES	●			●	●
AETNA		●	❍	▲	
AFLAC	●		●	●	
Air Products & Chemicals	●		●	●	
Alcoa	●		●	●	
Allergan	●		●		
Allstate	●		●		●
Altria			●		●
Amazon.com			●		
American Electric Power				●	
American Express	●		●		●
American International Group	●		●	●	●
American Tower	●		▲		
Ameriprise Financial	●		●	●	❍
Amgen	●		▲	▲	❍
Anadarko Petroleum	●		●	●	
Anheuser-Busch	●			❍	
Aon	●		●	●	
Apache	●		●	●	
Apple			●		
Applied Materials	❍		❍	▲	
Archer-Daniels-Midland	●		●		
AT&T				●	
Automatic Data Processing	●		❍	●	❍
Avon Products	●		❍	●	●
Baker Hughes	●		●		●
Bank of America	●		●		
Bank of New York Mellon	●			●	
Baxter International	●		❍	▲	
BB&T	●			●	●
Becton Dickinson		●	●	●	
Best Buy	●			●	●
Biogen Idec	●		●		
Boeing Company	●				●
Boston Scientific	●		●		
Bristol-Myers Squibb	●		●	●	
Burlington Northern Santa Fe	●		❍	●	
CA	●			●	

SUMMARY OF EXECUTIVE GRANT TYPE USAGE BY COMPANY

EXECUTIVE LONG-TERM INCENTIVE GRANTS

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

	Appreciation		Full-Value		
	Stock Options	SARs	Time-Based Restricted Stock	Performance Shares	Performance Units
Campbell Soup			●	●	
Capital One Financial	●		●		
Cardinal Health	●		●		●
Carnival	❍		●		
Caterpillar		●	●		●
CBS	●		●	●	
Celgene	●				●
Charles Schwab	●			●	●
Chesapeake Energy			●		
Chevron	●			●	
Chubb			●	●	
CIGNA	●				●
Cisco Systems	●		▲		
Citigroup	●		●	▲	
Clear Channel Communications	●		●		
CME Group	●		●		
Coca-Cola	●			●	
Coca-Cola Enterprises	●			●	
Colgate-Palmolive	●		●	●	
Comcast	●			●	
ConocoPhillips	●			●	
CONSOL Energy	●		●	●	
Constellation Energy Group	●				●
Corning	●			●	
Costco			●	●	
CSX				●	
CVS Caremark	●		●		●
Danaher	●			●	
Deere	●		●		●
Dell	●			●	●
Devon Energy	●		●		
DIRECTV Group				●	
Dominion Resources			●		●
Dow Chemical	●		●	●	
E.I. du Pont de Nemours	●		●	●	
Duke Energy			●	●	
Eaton	●				●
eBay	●			●	
Ecolab	●				
Edison International	●			●	
El Paso	●		●		
Electronic Arts	●		●		

SUMMARY OF EXECUTIVE GRANT TYPE USAGE BY COMPANY

	Executive Long-Term Incentive Grants: Appreciation		Full-Value		
Company	Stock Options	SARs	Time-Based Restricted Stock	Performance Shares	Performance Units
EMC	●		●	●	
Emerson Electric	●			●	
Entergy	●			●	
EOG Resources		●	●		
Exelon	●			●	
Express Scripts	●		●	●	
Exxon Mobil			●		●
Fannie Mae			●		
FedEx	●		●		●
Fifth Third Bancorp		●	❍	●	
FirstEnergy Corp.				●	
Fluor	●		●		●
Ford Motor	●			●	
Forest Laboratories	●				
FPL Group	●			●	
Franklin Resources			●	●	
Freddie Mac	❍		●	●	
Freeport-McMoRan Copper & Gold	●			●	●
Gap	●		●	▲	
General Dynamics	●		●		
General Electric	●		●	●	●
General Mills	●		●		
General Motors	●		●	●	
Genzyme Corp.	●		▲		
Gilead Sciences	●			●	
Goldman Sachs	●		●		
Google	●		●		
Halliburton	●		●		●
Hartford Financial Services	●		●	●	
Heinz (H.J.)	●		●		●
Hess	●		●		
Hewlett-Packard	❍		❍	▲	❍
Home Depot	●		●	●	❍
Honeywell International	●				●
Humana	●		●		
Illinois Tool Works	●				
Intel	●		●		
International Business Machines	●		●	●	
International Game Technology	●		●	▲	
International Paper				●	
Johnson & Johnson	●		●		●
Johnson Controls	●		●		●

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

SUMMARY OF EXECUTIVE GRANT TYPE USAGE BY COMPANY

	EXECUTIVE LONG-TERM INCENTIVE GRANTS				
	Appreciation		Full-Value		
	Stock Options	SARs	Time-Based Restricted Stock	Performance Shares	Performance Units
	● = Continuing		▲ = New or Prospective Grant Type		❍ = Dropped
JPMorgan Chase		●	●		
Juniper Networks	●			●	
Kellogg	●			●	
Kimberly-Clark	●		●	●	
Kohl's	●		●		
Kraft Foods	▲		●		●
Kroger	●		●		●
L-3 Communications	●		▲	▲	
Lehman Brothers Holdings	❍		●	▲	
Lilly (Eli) & Co.				●	
Lincoln National	●			●	
Lockheed Martin	●			●	●
Loews		●			
Lowe's Companies	●		●	▲	
Marathon Oil Corp.	●		●		●
Marriott International		●	●		
Marsh & McLennan Companies	●		●	●	
McDonald's	●			●	●
McGraw-Hill Companies	●			●	
McKesson	●		●		●
Medco Health Solutions	●		●		
Medtronic	●		●	●	●
MEMC Electronic Materials	●		▲	▲	
Merck	●		●	●	
Merrill Lynch			●	●	
MetLife	●			●	
Microsoft			●	●	
Monsanto	●			●	
Morgan Stanley	●		●		
Motorola	●		●		●
Murphy Oil	●			●	
National Oilwell Varco	●			▲	
Newmont Mining	●			▲	❍
News Corp.			●		
NIKE	●		●		●
Noble Corporation	●		●	●	
Noble Energy	●		▲	❍	❍
Norfolk Southern Corp.	●		●	●	
Northern Trust	●		❍	●	
Northrop Grumman	●			●	
Nucor			●	●	
NVIDIA	●				

SUMMARY OF EXECUTIVE GRANT TYPE USAGE BY COMPANY

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

	EXECUTIVE LONG-TERM INCENTIVE GRANTS				
	Appreciation		Full-Value		
	Stock Options	SARs	Time-Based Restricted Stock	Performance Shares	Performance Units
Occidental Petroleum	❍		❍	●	▲
Omnicom Group	●		●		
Oracle	●				
PACCAR	●		●		●
Paychex	●		●		
Peabody Energy	●			●	
PepsiCo	●			●	
Pfizer	❍	▲	●	●	
PG&E			●	●	
PNC Financial Services	●		●	●	
PPL Corp.	●		●	▲	
Praxair	●			●	
Precision Castparts	●				
Principal Financial	●			●	
Procter & Gamble	●		●		●
Progressive			●	●	
ProLogis	●		●	●	
Prudential Financial	●		●	●	
Public Service Enterprise	●		●	●	
Public Storage	●		●		
QUALCOMM	●				
Raytheon			●	●	
Regions Financial	●		●	❍	▲
Reynolds American				●	●
Safeway	●				
Schering-Plough	●			●	
Schlumberger Limited	●				
Sears Holdings			●	●	❍
Sempra Energy	●			●	
Simon Property Group			●		
Smith International				●	
Southern Co.	●				●
Spectra Energy	▲		▲		
Sprint Nextel	●		●	❍	
St. Jude Medical	●				
Staples	●		●	●	
Starbucks	●				
State Street	❍	●	●	●	
Stryker	●				
Sun Microsystems	●			●	
SunTrust Banks	●		●		❍
Symantec	●		●		▲

SUMMARY OF EXECUTIVE GRANT TYPE USAGE BY COMPANY

	EXECUTIVE LONG-TERM INCENTIVE GRANTS				
	Appreciation		Full-Value		
	Stock Options	SARs	Time-Based Restricted Stock	Performance Shares	Performance Units
	● = Continuing		▲ = New or Prospective Grant Type		❍ = Dropped
SYSCO	●		●		●
T. Rowe Price Group	●				
Target	●			●	
Texas Instruments	●		●		
Textron	●		●	●	
Travelers	●			●	
Thermo Fisher Scientific	●		●	▲	
Time Warner Inc.	●		●	●	
TJX Companies	●			●	●
Transocean Inc.	●		▲	●	
Tyco International	●		●	●	
U.S. Bancorp	●				
Union Pacific	●		●	●	
United Parcel Service	●		●	●	
United States Steel	●		●	●	
United Technologies		●		●	
UnitedHealth		●			●
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, are as follows:

DEFINITIONS 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 the stock price at the time of grant and options 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. Vesting is contingent solely on the passage of time. Note that this is a change in methodology from last year's report, which also included performance-based restricted shares with a one-year performance period as restricted stock. Under this year's definitions, such awards are categorized as performance shares. However, "backward-looking" performance shares for which payout levels are determined following a performance period but shares were not previously granted (e.g., annual bonus paid in the form of restricted stock) are still categorized as restricted stock. 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 measurement period of one or more years. Note that this is a change in methodology from prior years' reports, which only included performance awards with multi-year performance periods as performance shares. Performance shares 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.

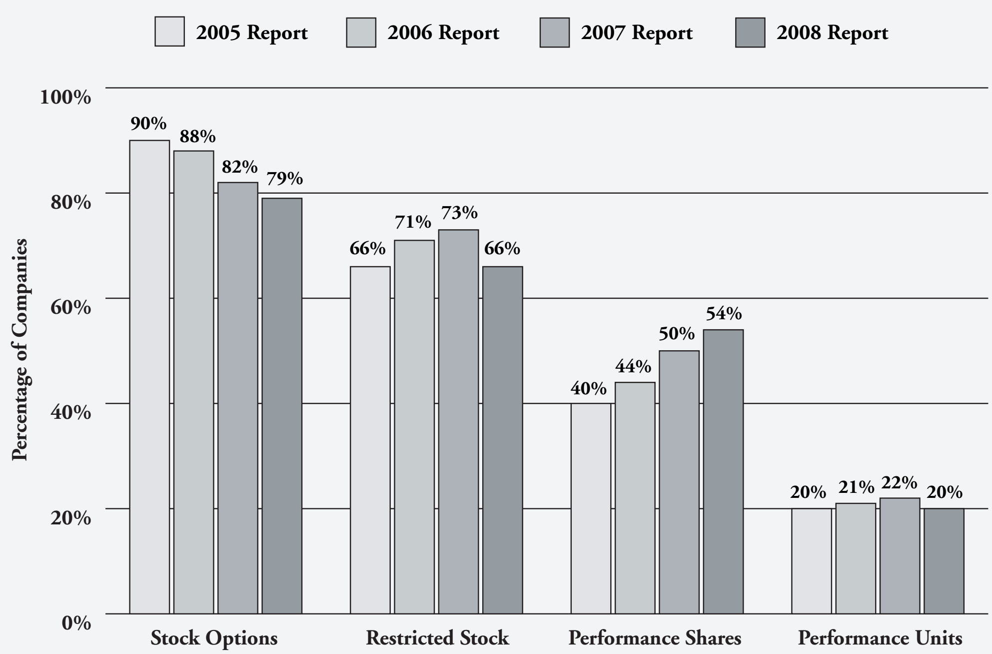
Performance Units are grants of cash or dollar-denominated units whose payment or value is contingent on performance against predetermined objectives over a pre-defined measurement period (of one or more years). Actual payouts may be in cash or stock.

METHODOLOGY CHANGE

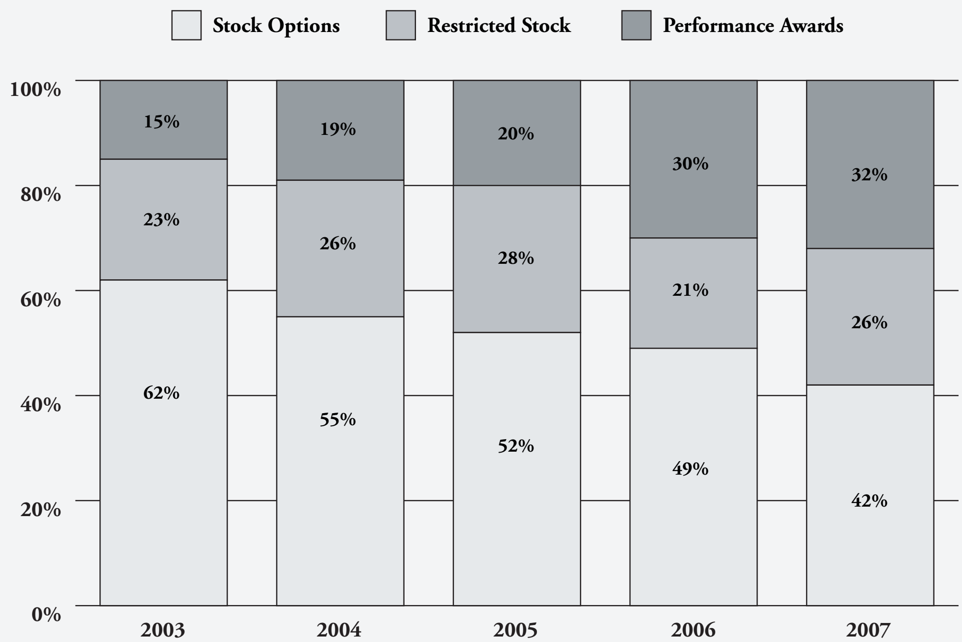
The 2008 Top 250 report introduces a new methodology that classifies awards earned over a one-year performance period and paid in restricted stock vesting over at least one year as performance shares (past years' reports categorized these grants as restricted stock). A number of companies have adopted one-year performance periods with a service-vesting "tail" (as opposed to multi-year performance periods) as a result of the difficulty in forecasting and setting multi-year performance goals in an uncertain and volatile economic environment. Such awards are classified as performance shares in this year's report to capture the performance-based nature of this grant type. However, note that one-year performance-based shares must be "forward-looking" (i.e., awards must be granted prior to the end of the performance period) in order to qualify as performance shares. "Backward-looking" one-year performance shares, for which payout levels are determined following a performance period but shares were not previously granted (e.g., annual bonus paid in the form of restricted stock) continue to be classified as restricted stock.

All sections of this report are based on the new methodology. The trend-data contained in the report is only slightly affected since only approximately nine percent of this year's Top 250 companies award restricted stock with one-year performance periods. Three percent of these companies already use multi-year performance shares and as a result, the methodology change results in a net difference of only six percent in terms of performance share usage (i.e., usage under the new methodology is sixty percent whereas performance share usage under the old methodology is fifty-four percent). Similarly, the net difference in restricted stock usage is only six percent, since three percent of companies grant both time-based restricted stock and restricted stock with a one-year performance period to their executives. However, to allow for additional comparison with prior reports, the charts below and on the following page include analyses of executive long-term incentive grant-type usage and CEO long-term incentive mix based on the old methodology.

Executive Long-Term Incentive Grant Type Usage
(Old Methodology)



CEO Grant Type as a Percentage of Total LTI Value, 2003 – 2007
(Old Methodology)



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 2,200 corporations, including twenty-eight percent of the Fortune 500 during the past two years, in a wide variety of industries from our offices in New York, Chicago, Los Angeles, San Francisco, Atlanta, and Tarrytown. 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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