

FREDERIC W. COOK & CO., INC.

100

DIRECTOR COMPENSATION:

NASDAQ 100 *vs* NYSE 100

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

SEPTEMBER 2004

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Executive Summary 3

Overview & Methodology 4

Total Compensation 6

Cash vs. Equity 7

Board Cash Retainers 8

Committee Member Annual Retainers 9

Board / Committee Meeting Fees 10

Additional Committee Chair Compensation 11

Lead Director Compensation 12

Non-Executive Chairman Compensation 13

Equity Ownership Programs 14

100 Largest NASDAQ Companies 15

100 Largest NYSE Companies 16

Company Profile 17

Outside directors are assuming increased responsibility in protecting organizations and their shareholders. At the same time that their roles, responsibilities, and workloads have increased, so too has their potential liability. These forces in combination have caused outside director compensation levels to increase as companies struggle to attract and retain qualified outside directors. Last year, this study documented the initial changes in director compensation practices that began after Sarbanes-Oxley and other corporate governance reforms. Now, one year later, its aim is to bring the competitive landscape into focus, in the midst of continuing change.

The following are notable findings and trends:

- The total value of directors' compensation programs continued to increase in 2004, with the average increasing by 53% in NASDAQ companies and 7% in NYSE companies. Some of this increase was due to increasing stock prices.
- Compensation is higher for Audit committee chairs than for other committee chairs.
- Although options remain the most prevalent equity award, there is a trend towards replacing their value with full-value equity awards. Eight NASDAQ companies and twelve NYSE companies stopped granting options to non-employee directors in the past year.
- Annual cash retainers for Board membership increased over the past year. For those companies that pay an annual cash retainer, the median increased by 25% for NASDAQ companies and 11% for NYSE companies.
- The number of companies using annual retainers to compensate committee members has increased, with the retainer paid to Audit committee members often times being higher than that paid for service on other committees. Across both the NASDAQ and the NYSE study groups, sixteen companies added Audit committee member retainers since last year.
- The trend towards increasing committee meeting fees has subsided over the past year, with such fees and the number of companies who pay them remaining relatively static.
- More companies have established the roles of Lead Director and non-executive Chairman in response to corporate governance concerns. Across all of the companies in the study, there are nine more Lead Directors and sixteen more non-executive Chairmen over last year, giving a total of 37 Lead Directors and 21 non-executive Chairmen.
- The prevalence of ownership guidelines and share retention ratios increased as companies have become sensitive to directors' alignment with shareholder interests, particularly at NYSE companies. In particular, 33% of NYSE companies have director ownership guidelines, the majority of which are defined as a multiple of cash retainer.
- It is common to provide directors with the ability to convert cash retainers and/or fees into stock/stock units or options. 22% of NASDAQ companies and 68% of NYSE companies offer conversion into shares/share units; 4% of NASDAQ companies and 11% of NYSE companies offer conversion into options.

OVERVIEW & METHODOLOGY

This report compares and contrasts the outside directors' compensation programs of the 100 largest U.S. based companies listed on each of the two major U.S. stock exchanges, the NASDAQ and the New York Stock Exchange ("NYSE"). This is our second annual report on director compensation practices. We believe it shows sharp contrasts between program structures at large high technology companies (i.e., the NASDAQ) and the more "traditional" companies listed on the NYSE. By understanding the differences, it is possible to develop best practices for all companies as they compete for talented outside directors.

The companies in this report are the 100 largest U.S.-based companies in the NASDAQ and NYSE, determined by market-capitalization as of April 30, 2004. Summary financial data for the comparison companies are shown below.

- Stock prices and shareholder returns in both groups have increased markedly since last year.
- The NYSE sample companies are generally larger than the NASDAQ companies, in terms of both revenues and market capitalization.

	NASDAQ 100			NYSE 100		
	Revenues (\$ Millions)	Market Capitalization as of 4/30/04 (\$ Millions)	1-Year Total Shareholder Return as of 4/30/04	Revenues (\$ Millions)	Market Capitalization as of 4/30/04 (\$ Millions)	1-Year Total Shareholder Return as of 4/30/04
75th Percentile	\$4,038	\$13,288	64.0%	\$41,098	\$67,892	36.0%
Average	\$4,522	\$17,136	43.8%	\$36,933	\$63,058	28.7%
Median	\$1,518	\$5,910	30.3%	\$23,363	\$41,125	24.1%
25th Percentile	\$858	\$3,934	11.0%	\$12,456	\$26,948	11.9%

Information on each company's director compensation programs was collected from proxy statements issued during the one-year period ending May 1, 2004.

There are several elements of compensation that typically comprise outside directors' compensation programs. This report analyzes each element in the aggregate as well as individually, paying particular attention to the way that the NASDAQ and NYSE companies utilize them within their programs. These pay elements are as follows:

- Annual cash retainer for Board and committee service
- Meeting fees for attendance at Board and committee meetings
- Additional compensation for chairing the Board or specific committees
- Equity compensation, in the form of stock options or full-value awards, such as stock grants, deferred stock, or restricted stock

In addition, the study reviews the prevalence and design of other related programs such as director stock ownership guidelines.

Standard assumptions used to calculate total compensation were kept constant from last year's study to facilitate accurate year-over-year comparisons. The assumptions are as follows:

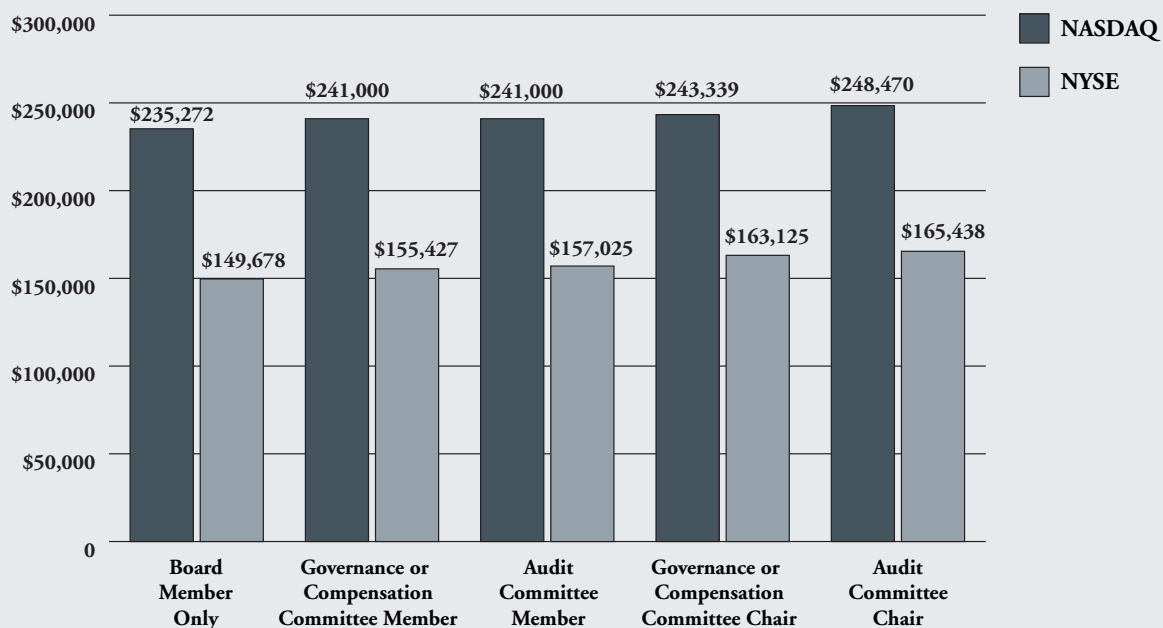
- Each Board meets **eight** times a year.
- Each committee of the Board meets **five** times a year.
- All equity compensation is valued based on the closing stock price on **April 30, 2004**.
- Stock options are valued at **one-third (33.3%)** of fair market value on the grant date for the NYSE companies and at **one-half (50%)** of fair market value for the NASDAQ companies. These values are used as an estimate of the values that would be generated using the Black-Scholes option pricing model, with the differences in the two valuations attributable to the higher volatility and lower dividend yields typically found among NASDAQ companies.
- Full-value awards such as restricted shares, deferred share units, and outright share grants are valued at 100% of each company's April 30, 2004 price.
- It should be noted that comparisons to prior year practices do not reflect a constant company population, since a point-in-time snapshot of company size determines inclusion in this report. Therefore, "trend" data can be influenced by changes in the company sample from year-to-year, as well as actual changes in compensation practices. A total of 18 companies, representing 9% of the companies reviewed, did not appear in last year's report.

TOTAL COMPENSATION

Companies are increasingly linking compensation to specific director roles and responsibilities, and their related individual time commitments and liabilities. This dynamic is particularly evident for the Audit committee. To measure differences in compensation, the following common categories of Board service were considered:

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

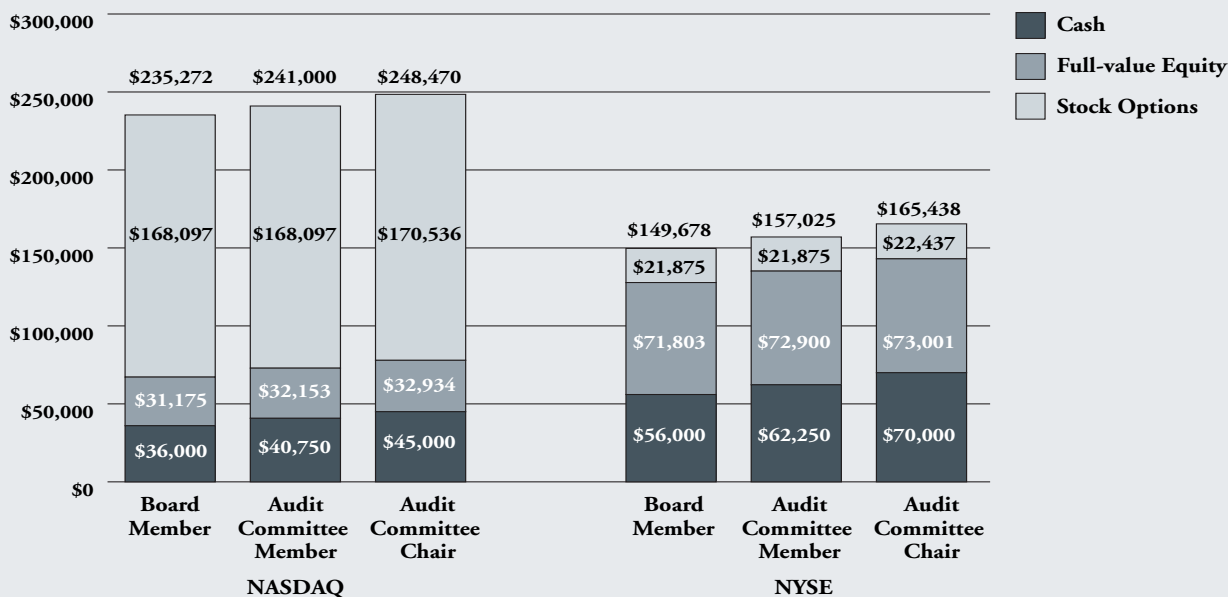
The table below shows **median** total compensation values at NASDAQ and NYSE companies. Based on a comparison of median compensation, NASDAQ companies provide an average of 53% more value than NYSE companies across the categories examined in this study. This is primarily due to delivery of a higher portion of total compensation in the form of equity and a greater increase in NASDAQ stock prices during the year.



Absolute compensation levels increased from last year. For regular Board members, the value of compensation increased by 53% at NASDAQ companies and 7% at NYSE companies. The value of Audit committee chair compensation increased by 50% at NASDAQ companies and by 11% at NYSE companies.

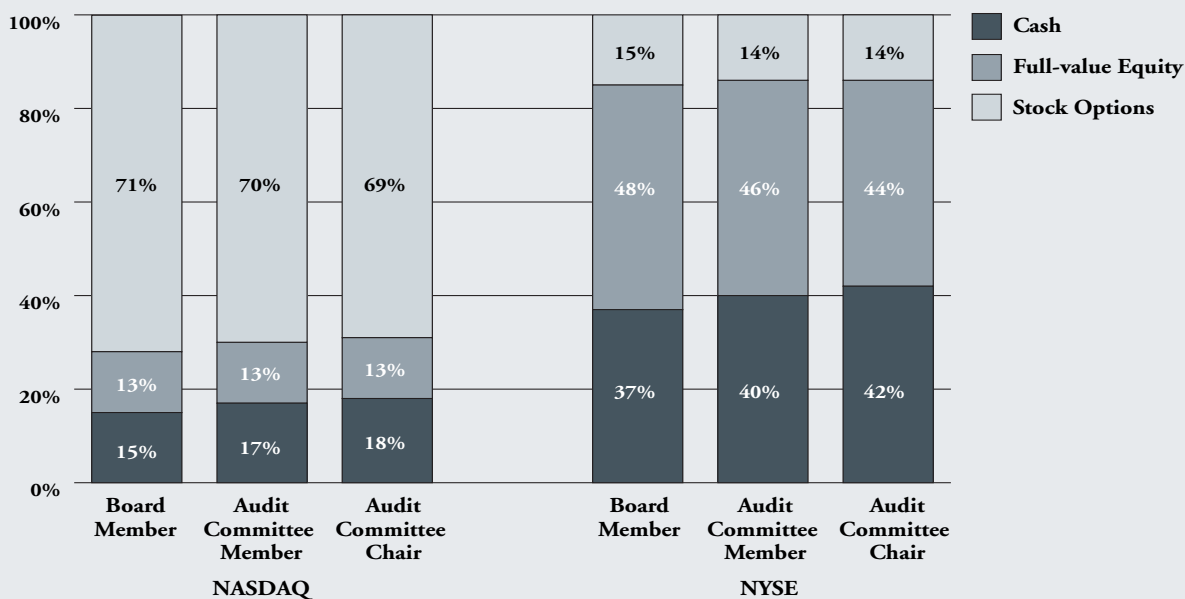
CASH VS. EQUITY

The mix of pay elements differs markedly between NASDAQ and NYSE companies. NASDAQ companies provide about one-third less cash value than NYSE companies, but provide about twice as much equity, which results in higher total compensation. NYSE companies rely more heavily on full-value equity awards while NASDAQ companies favor options, illustrating the more leveraged pay strategies at NASDAQ companies.



The charts below show the median mix of compensation elements (i.e., cash and equity) for Board members, Audit committee members, and Audit committee chairs at the NASDAQ and NYSE companies.

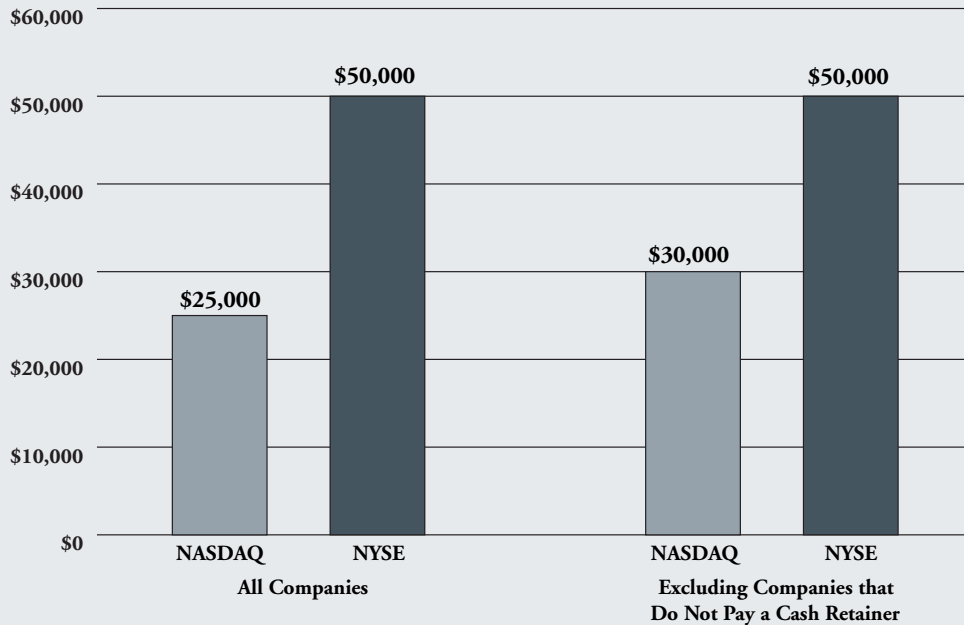
- Cash is a higher percentage of total pay at NYSE companies.



- 23% of NASDAQ and 77% of NYSE companies have full-value equity awards in the director compensation package.
- 73% of NASDAQ and 20% of NYSE companies have options-only equity programs.
- Eight NASDAQ companies and twelve NYSE companies stopped granting options to non-employee directors in the past year.

BOARD CASH RETAINERS

The majority of companies in the study provide an annual cash retainer to directors, with 90% of NASDAQ companies and 97% of NYSE companies providing this pay element. The following chart shows **median** annual cash retainers. The median retainer (for companies that provide one) increased by 25% at NASDAQ companies and by 11% at NYSE companies from last year.



COMMITTEE MEMBER ANNUAL RETAINERS

Some companies provide an annual retainer for committee service in addition to (or in lieu of) meeting fees for committee attendance. The following table shows median and average annual retainers for committee service for those companies that pay such a retainer. These retainers are for regular committee service only and do *not* include additional retainers for chairing a committee.

	Percentage of Companies		Median		Average	
	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ	NYSE
Governance or Compensation Committee	47%	21%	\$5,000	\$9,000	\$17,941	\$8,319
Audit Committee	25%	29%	\$10,000	\$9,000	\$25,792	\$10,455

The higher values shown for the NASDAQ companies are largely due to their heavier use of option awards as payment for committee service, while NYSE companies are more likely to provide cash.

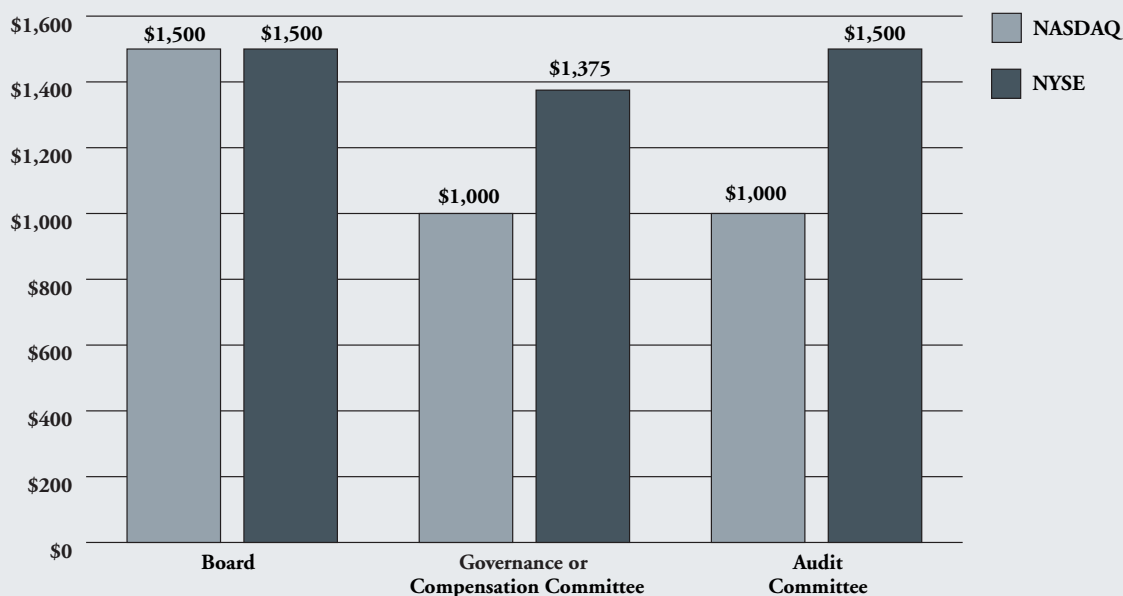
The number of companies using annual retainers to compensate committee members has increased, with the retainer paid to the Audit committee more likely to be higher than that paid for service on other committees. Across both the NASDAQ and the NYSE companies, sixteen companies added Audit committee retainers since last year.

BOARD / COMMITTEE MEETING FEES

The majority of companies provide meeting fees for attendance at Board and committee meetings, although meeting fees are slightly more prevalent at NASDAQ companies. The number of companies providing meeting fees remained relatively unchanged since last year.

	Percentage of Companies Paying Meeting Fees	
	NASDAQ	NYSE
Board	65%	52%
Governance or Compensation Committee	55%	52%
Audit Committee	56%	54%

The chart below shows the **median** Board and committee meeting fees for only those companies in the study that pay such fees. Committee meeting fees have increased in recognition of increased work at the committee level (e.g., the median NYSE Audit committee meeting fee increased from \$1,200 last year to \$1,500 this year).



ADDITIONAL COMMITTEE CHAIR COMPENSATION

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

This analysis only shows compensation **above** that paid for regular committee service (e.g., if a regular committee member receives an annual retainer of \$5,000 and the chair receives an annual retainer of \$7,500, then only the additional \$2,500 above that paid for regular service is reflected).

For the NYSE companies, additional Governance or Compensation committee chair retainers ranged from \$2,000 to \$20,000 and additional Audit committee chair retainers ranged from \$2,000 to \$25,000. For NASDAQ companies, additional Governance or Compensation committee chair retainers ranged from \$1,500 to \$25,000 and additional Audit committee chair retainers also ranged from \$1,500 to \$25,000.

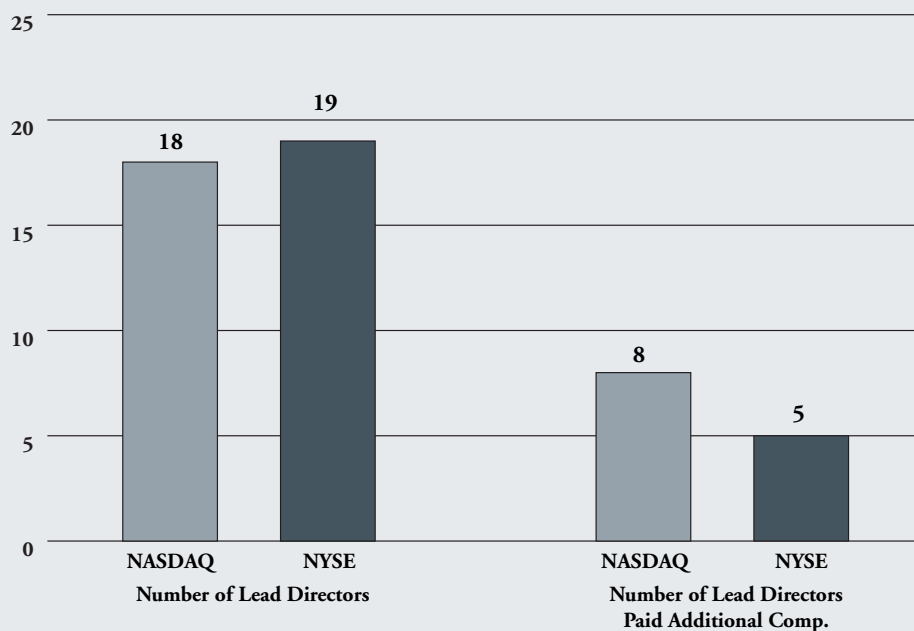
	Percentage of Companies		Median		Average	
	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ	NYSE
<i>Additional Chair Retainers</i>						
Governance or Compensation Committee	41%	79%	\$5,000	\$7,500	\$7,598	\$7,813
Audit Committee	47%	84%	\$6,000	\$10,000	\$9,505	\$9,827
<i>Additional Chair Meeting Fees (per meeting)</i>						
Governance or Compensation Committee	4%	7%	\$1,750	\$500	\$2,000	\$664
Audit Committee	8%	6%	\$1,800	\$500	\$1,950	\$733

For those companies that pay additional compensation to committee chairs, the Audit committee chair is more likely to be paid more than the chairs of other committees. The most common form of additional compensation is a retainer (versus a per-meeting fee).

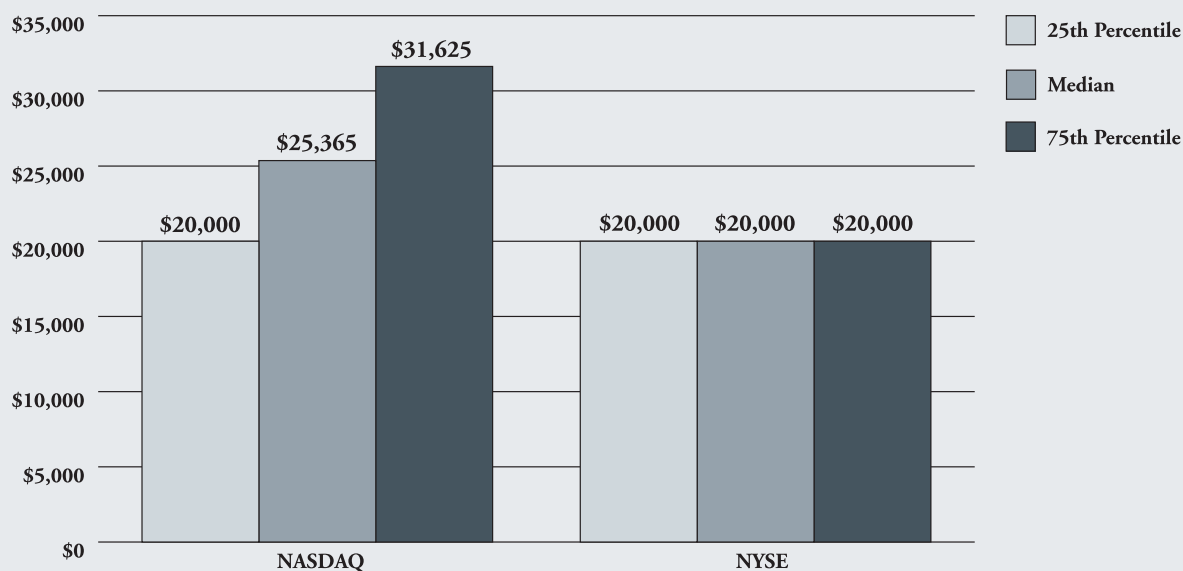
NASDAQ companies are more likely to provide committee chairs with additional options, resulting in higher total award values than the cash retainers that are more often provided by NYSE companies.

LEAD DIRECTOR COMPENSATION

More companies have established the role of “Lead Director” (sometimes called “Presiding Director”) in response to corporate governance concerns. Specifically, seven more NASDAQ companies and two more NYSE companies had Lead Directors this year. Two more NASDAQ and two more NYSE companies paid Lead Directors additional compensation than last year. Lead Directors whose responsibilities were limited to presiding over executive sessions of the Board were excluded from this analysis. The following chart shows the number of companies with Lead Directors and the number of Lead Directors who are paid additional compensation among the NASDAQ and NYSE companies.

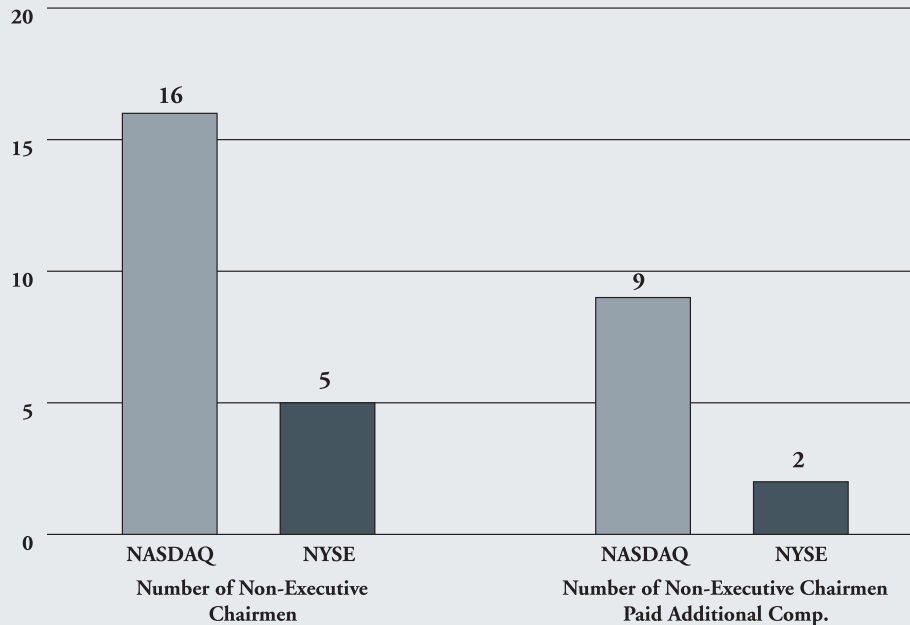


Lead Director compensation is typically paid in cash. A few companies supplement cash payment with full-value shares or options, while a few others grant only full-value shares or options. This analysis shows Lead Director compensation **above** that paid for regular Board service, for those companies paying such compensation.

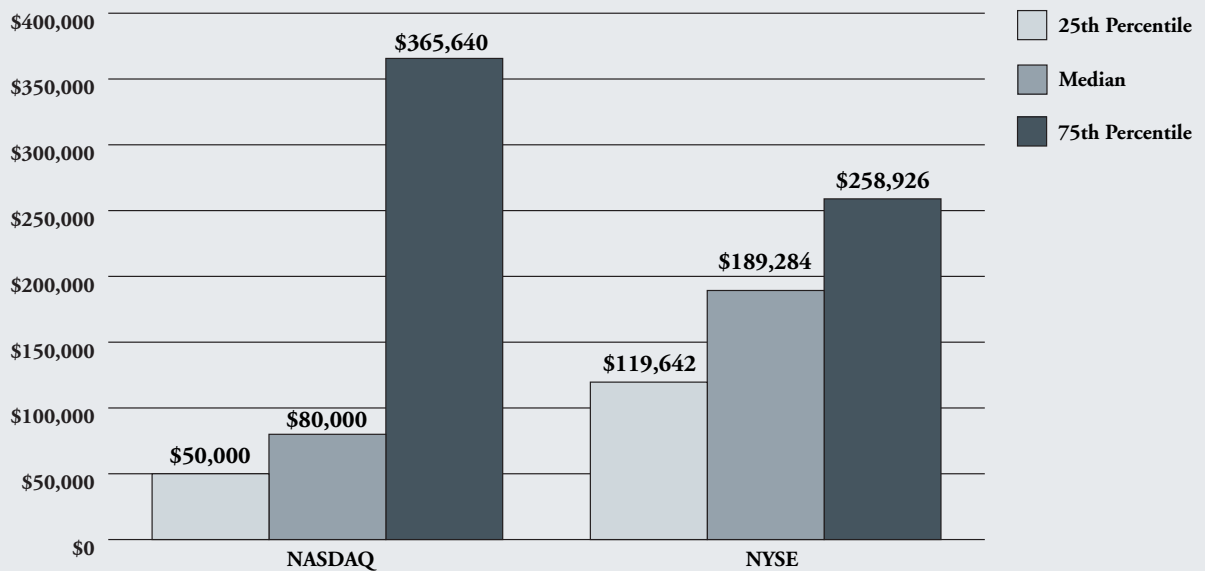


NON-EXECUTIVE CHAIRMAN COMPENSATION

More companies have added non-executive Chairman of the Board positions over last year, with ten additional NASDAQ and six additional NYSE non-executive Chairmen. Six more NASDAQ companies pay additional compensation to their non-executive Chairmen over last year. The figures below do not include Chairmen who served as the Chief Executive Officer of the company within the prior five years.

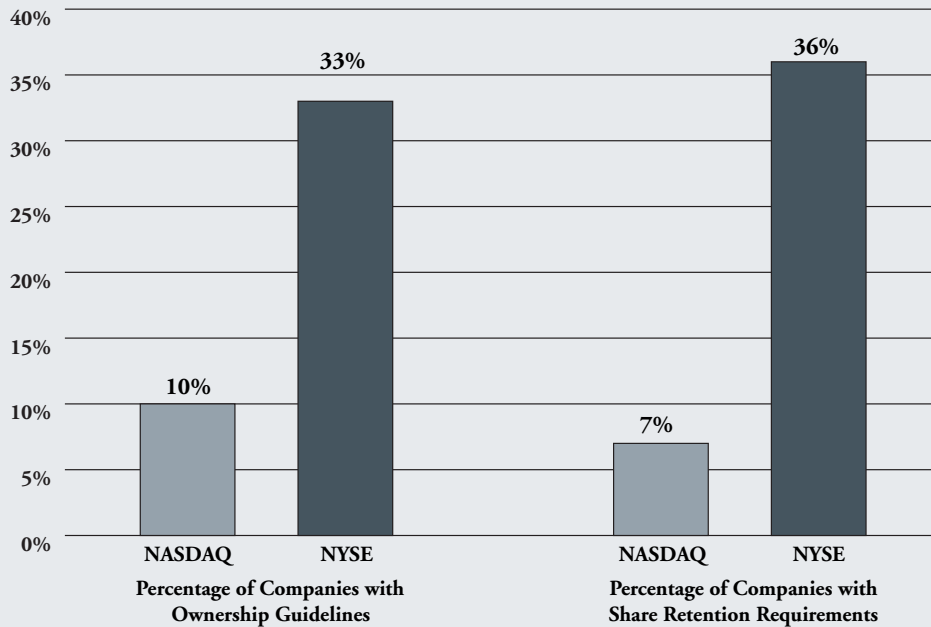


Compensation provided for serving as the non-executive Chairman of the Board, in addition to that paid for regular Board service, is shown below. Such compensation is usually a mix of cash and equity, and tends to reflect the Chairman's role and responsibilities within the company, resulting in a wide range of compensation levels for the position.



EQUITY OWNERSHIP PROGRAMS

In an effort to further align directors' interests with those of shareholders, companies increasingly require that directors own shares. Ownership guidelines and share retention requirements are the most common ownership program designs. Ownership guidelines usually require directors to accumulate and hold a certain amount of company stock, and are typically defined as a multiple of the director's annual retainer. Retention ratios most commonly take the form of a mandatory holding period for full-value shares that have been granted or accumulated after option exercise.



100 LARGEST NASDAQ COMPANIES

ADOBE SYSTEMS INC	FASTENAL CO	NOVELLUS SYSTEMS INC
ALTERA CORP	FIRST HEALTH GROUP CORP	NVIDIA CORP
AMAZON.COM INC	FISERV INC	ORACLE CORP
AMERICAN PWR CNVRSION	FLEXTRONICS INTERNATIONAL	PACCAR INC
AMGEN INC	GARMIN LTD	PATTERSON DENTAL CO
APOLLO GROUP INC	GENTEX CORP	PATTERSON-UTI ENERGY INC
APPLE COMPUTER INC	GENZYME CORP	PAYCHEX INC
APPLIED MATERIALS INC	GILEAD SCIENCES INC	PEOPLESOFT INC
BEA SYSTEMS INC	INTEL CORP	PETSMART INC
BED BATH & BEYOND INC	INTERACTIVECORP	PIXAR
BIOGEN IDEC INC	INTERSIL CORP	QLOGIC CORP
BIOMET INC	INTUIT INC	QUALCOMM INC
BROADCOM CORP	INVITROGEN CORP	RED HAT INC
C H ROBINSON WORLDWIDE INC	JDS UNIPHASE CORP	ROSS STORES INC
CAREER EDUCATION CORP	JUNIPER NETWORKS INC	SANDISK CORP
CDW CORP	KLA TENCOR CORP	SANMINA-SCI CORP
CELGENE CORP	LAM RESEARCH CORP	SCHEIN HENRY INC
CEPHALON INC	LAMAR ADVERTISING CO	SEPRACOR INC
CHIRON CORP	LEVEL 3 COMMUN INC	SIEBEL SYSTEMS INC
CINTAS CORP	LINCARE HOLDINGS INC	SIGMA-ALDRICH CORP
CISCO SYSTEMS INC	LINEAR TECHNOLOGY CORP	SIRIUS SATELLITE RADIO INC
CITRIX SYSTEMS INC	MARVELL TECHNOLOGY GROUP	SMURFIT-STONE CONTAINER CORP
COMCAST CORP	MAXIM INTEGRATED PRODUCTS	STAPLES INC
COMPUWARE CORP	MEDIMMUNE INC	STARBUCKS CORP
COMVERSE TECHNOLOGY INC	MERCURY INTERACTIVE CORP	SUN MICROSYSTEMS INC
COSTCO WHOLESALE CORP	MICROCHIP TECHNOLOGY INC	SYMANTEC CORP
DELL INC	MICROSOFT CORP	SYNOPSYS INC
DENTSPLY INTERNATL INC	MILLENNIUM PHARMACTCLS INC	TELLABS INC
DOLLAR TREE STORES INC	MOLEX INC	VERISIGN INC
EBAY INC	NETWORK APPLIANCE INC	WHOLE FOODS MARKET INC
EHOSTAR COMMUN CORP	NEWMONT MINING CORP	XILINX INC
ELECTRONIC ARTS INC	NEXTEL COMMUNICATIONS INC	YAHOO INC
EXPEDITORS INTL WASH INC	NIKE INC	
EXPRESS SCRIPTS INC	NOVELL INC	

100 LARGEST NYSE COMPANIES

3M CO	DUPONT (E I) DE NEMOURS & CO	MEDTRONIC INC
ABBOTT LABORATORIES	EMC CORP/MA	MERCK & CO
AFLAC INC	EMERSON ELECTRIC CO	MERRILL LYNCH & CO
ALCOA INC	EXELON CORP	METLIFE INC
ALLSTATE CORP	EXXON MOBIL CORP	MORGAN STANLEY
ALTRIA GROUP INC	FANNIE MAE	MOTOROLA INC
AMERICAN EXPRESS	FEDERAL HOME LOAN MORTG CORP	NATIONAL CITY CORP
AMERICAN INTERNATIONAL GROUP	FEDEX CORP	PEPSICO INC
ANHEUSER-BUSCH COS INC	FIRST DATA CORP	PFIZER INC
AT&T WIRELESS SERVICES INC	FORD MOTOR CO	PROCTER & GAMBLE CO
AUTOMATIC DATA PROCESSING	FOREST LABORATORIES	PRUDENTIAL FINANCIAL INC
BANK OF AMERICA CORP	FOX ENTERTAINMENT GROUP INC	SBC COMMUNICATIONS INC
BANK OF NEW YORK CO INC	GANNETT CO	SCHERING-PLOUGH
BANK ONE CORP	GENENTECH INC	SCHLUMBERGER LTD
BELLSOUTH CORP	GENERAL ELECTRIC CO	SOUTHERN CO
BERKSHIRE HATHAWAY	GENERAL MOTORS CORP	SYSCO CORP
BOEING CO	GILLETTE CO	TARGET CORP
BOSTON SCIENTIFIC CORP	GOLDMAN SACHS GROUP INC	TEXAS INSTRUMENTS INC
BRISTOL MYERS SQUIBB	HEWLETT-PACKARD CO	TIME WARNER INC
CARDINAL HEALTH INC	HOME DEPOT INC	TYCO INTERNATIONAL LTD
CARNIVAL CORP	HONEYWELL INTERNATIONAL INC	U S BANCORP
CATERPILLAR INC	ILLINOIS TOOL WORKS	UNITED PARCEL SERVICE INC
CENDANT CORP	INTL BUSINESS MACHINES CORP	UNITED TECHNOLOGIES CORP
CHEVRONTXACO CORP	J P MORGAN CHASE & CO	UNITEDHEALTH GROUP INC
CITIGROUP INC	JOHNSON & JOHNSON	VERIZON COMMUNICATIONS
CLEAR CHANNEL COMMUNICATIONS	KIMBERLY-CLARK CORP	VIACOM INC
COCA-COLA CO	KRAFT FOODS INC	WACHOVIA CORP
COLGATE-PALMOLIVE CO	LEHMAN BROTHERS HOLDINGS INC	WALGREEN CO
CONOCOPHILLIPS	LIBERTY MEDIA CORP	WAL-MART STORES
DIRECTV GROUP INC	LILLY (ELI) & CO	WASHINGTON MUTUAL INC
DISNEY ENTERPRISES INC	LOWES COS	WELLS FARGO & CO
DOMINION RESOURCES INC	MARSH & MCLENNAN COS	WYETH
DOW CHEMICAL	MBNA CORP	
DUKE ENERGY CORP	MCDONALDS CORP	

Frederic W. Cook & Co., Inc. provides management compensation consulting services to business clients. Formed in 1973, our firm has served almost 1,600 corporations in a wide variety of industries from our offices in New York, Chicago, and Los Angeles. Our primary focus is on performance-based compensation programs that help companies attract and retain key employees, motivate and reward them for improved performance, and align their interests with shareholders. Our range of consulting services encompasses the following:

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

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