

FREDERIC W. COOK & CO., INC.



STOCK OWNERSHIP POLICIES

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

SEPTEMBER 2003

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A large, stylized purple number '250' is centered on the page. A black horizontal bar with rounded ends is superimposed over the middle of the number, containing the text 'STOCK OWNERSHIP POLICIES' in white, all-caps, serif font.

STOCK OWNERSHIP POLICIES

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REPORT OVERVIEW

This report presents information on formal stock ownership policies for executives and non-employee directors of the 250 largest U.S.-based companies in the Standard & Poor's 500 Index ("Top 250"). Selection of these companies was based on their total market capitalization, i.e., share price multiplied by total common shares outstanding as reported in the Spring 2003 issue of *Business Week* magazine ("The Best Performers of the S&P 500").

The following topics are covered in this report for both executives and directors:

- Prevalence of formal stock ownership policies
- Type of guidelines
- Value of guidelines
- Design features

The information in this report is based on disclosure in company proxy statements issued through August 8, 2003, and on company web sites.

EXTERNAL FACTORS INFLUENCING STOCK OWNERSHIP POLICY DESIGN

As the size of equity compensation awards increased during the 1990s, institutional investors became concerned that there was not a corresponding increase in stock ownership levels. In response to this concern, companies began adopting stock ownership policies to ensure that senior executives and directors were acquiring and holding minimum levels of company stock.

Recent events have magnified shareholder concerns over insiders' ability to sell company stock and underscored the importance of implementing an effective ownership policy. A common thread of recent corporate scandals has been top executives exercising options and/or selling stock before dramatic market declines, leaving investors and employees to suffer the consequences of fraudulent or unethical management behavior. Additionally, under prior SEC rules, executives were permitted to use stock to pay back company loans without timely reports, thus concealing dispositions and reinforcing the perception that executives benefit from insider information. These abuses have led to regulatory reforms, such as more timely reporting requirements for stock transactions and prohibition on loans to insiders and directors, as well as calls by legislators for requirements that executives hold company shares they acquire until retirement.

In order to restore investor confidence and head off further regulation mandating career ownership of stock, two business groups, The Conference Board Commission on Public Trust and Private Enterprise and the Business Roundtable, introduced "best practices" initiatives that include stock ownership objectives for executives and directors.

In this environment, more companies are evaluating the need for, disclosing the existence of, and adopting executive and director stock ownership policies.

PREVALENCE OF EXECUTIVE & DIRECTOR STOCK OWNERSHIP GUIDELINES

During 2002, there was a surge in the number of formal executive and director stock ownership policies. Forty-nine percent of the Top 250 companies disclose formal ownership guidelines for their executives, representing a 37% increase from 2001, and 32% of the Top 250 companies disclose formal guidelines for their directors, representing a 46% increase from 2001. It is possible that actual prevalence may be even higher since disclosure of ownership guidelines is voluntary.

	Top 250 Companies With Ownership Guidelines		% Increase from 2001
	No. of Companies	% of Total Companies	
Executives	123	49%	37%
Directors	79	32%	46%

The prevalence of executive and director stock ownership guidelines is expected to continue to increase over the next couple of years since the existence of stock ownership guidelines is increasingly being viewed by investors as evidence of good corporate governance.

TYPES OF OWNERSHIP GUIDELINES

For purposes of this report, ownership guidelines are grouped into two categories: “traditional” approaches and “retention” approaches. Traditional approaches primarily include multiple-of-salary/retainer and fixed share guidelines. For example, under multiple-of-salary guidelines, executives are expected to hold shares of company stock equal to a multiple of their base salary.

While the traditional approaches are simple to communicate to participants, these approaches are not optimal for several reasons:

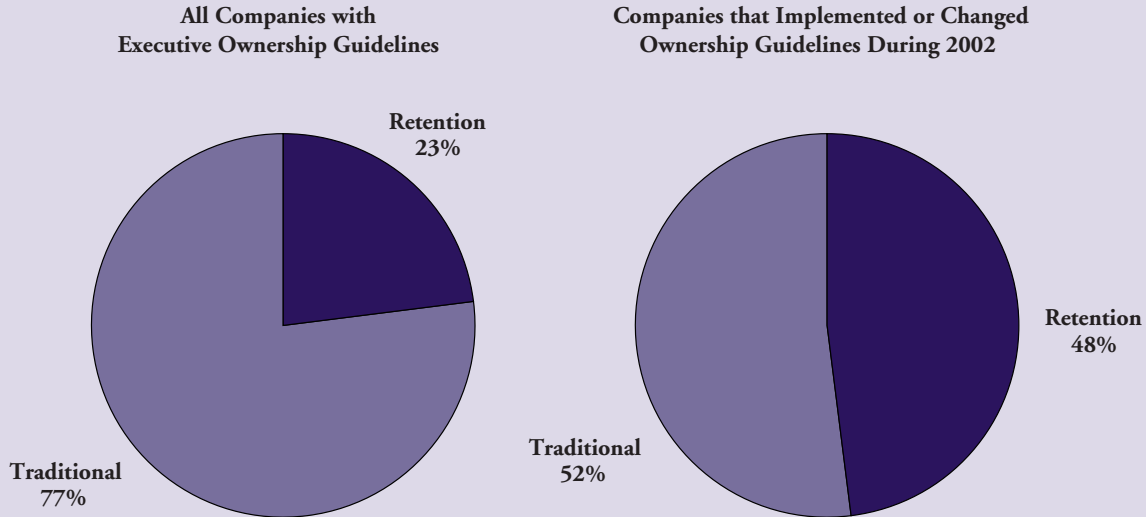
1. There is no mechanism for eliminating the perception or ensuring that executives are not inappropriately using inside information to time their option exercises and insulate themselves from downside risk
2. In a rising stock market, the guidelines can become obsolete, as the ownership requirement becomes insignificant relative to amounts earned from equity compensation programs, and executives may begin to sell substantial amounts of stock without violating the ownership policy
3. If share price fails to appreciate, executives must either purchase shares using their own resources or the company must relax enforcement, which undermines the intent of the guidelines
4. Depending upon time of hire and promotion, the guidelines may not be equally difficult for all executives/directors to achieve, e.g., option exercise prices for new hires may be significantly higher than long-tenured employees, making it more difficult for newly hired executives to comply

Retention approaches, which express the ownership requirement as a percentage of the “profit shares” resulting from equity-based long-term incentives that must be retained, address the shortcomings of the traditional approaches. Profit shares are the shares remaining after payment of the option exercise price and taxes owed at exercise of options, vesting of restricted stock or earnout of performance shares. The retention ratio holding requirement may be enforced for an indefinite period of time (e.g., career) or specified for a period of time (e.g., one year after receipt of gain). Guidelines that require retention until termination of employment or board service are referred to as “retention ratio” guidelines, and guidelines that require retention for a specific period, which is less than a career, are referred to as “holding period” guidelines. Retention approaches are often used in combination with traditional ownership guidelines (e.g., 75% of profit shares must be retained until multiple-of-salary guidelines are met).

EXECUTIVE STOCK OWNERSHIP GUIDELINES

TYPES OF EXECUTIVE OWNERSHIP GUIDELINES

Traditional ownership guidelines are most prevalent among the Top 250 companies, with 77% of the companies having guidelines using this approach. However, retention approaches are increasing in prevalence, as evidenced by 48% of the companies that adopted guidelines during the past year using this approach.



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

TYPE OF EXECUTIVE OWNERSHIP GUIDELINE

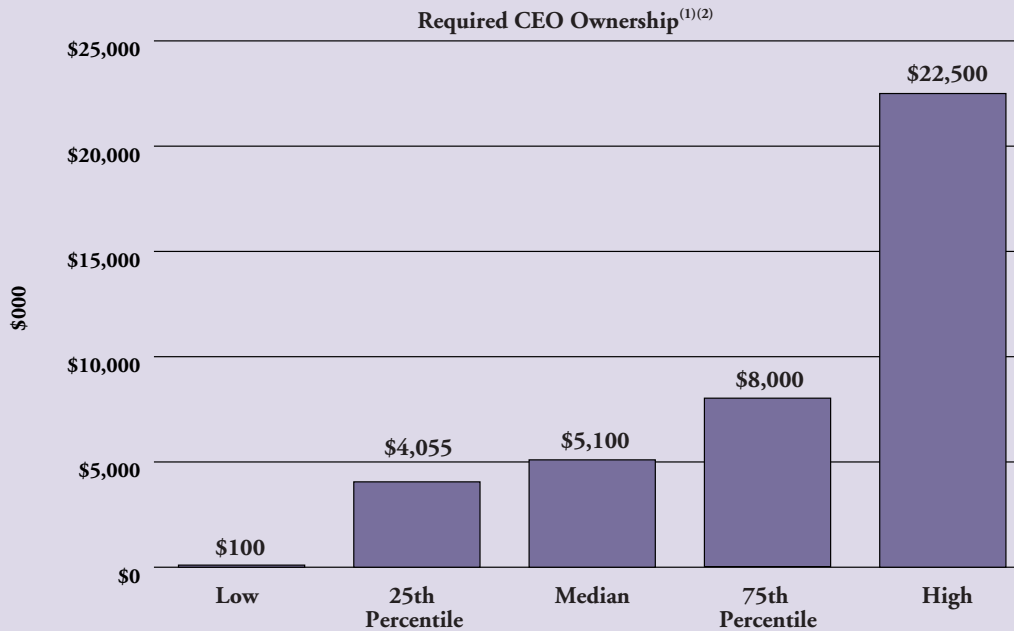
	Traditional Approaches				Retention Approaches				Total ⁽¹⁾
	Multiple of			Other	Combination Approach		Retention Ratio Only	Holding Period Only	
	Salary	Annual Comp	Fixed Shares		Retention Ratio	Holding Period			
<i>All Companies w/Guidelines</i>									
No. of Companies	68	2	12	2 ⁽²⁾	11	5	6	3	109
% of Total	62%	2%	11%	2%	10%	5%	6%	3%	100%
<i>New/Changes</i>									
No. of Companies	13	0	3	1 ⁽³⁾	5	5	3	3	33
% of Total	39%	0%	9%	3%	15%	15%	9%	9%	100%

- (1) Includes only companies that disclose type of guideline (i.e., excludes 14 companies that state that they have guidelines but do not describe them in enough detail to categorize them); total does not add up to 100% due to rounding
- (2) Other includes fixed dollar requirement and average of prior 5 year option grants
- (3) Fixed dollar requirement

EXECUTIVE STOCK OWNERSHIP GUIDELINES

VALUE OF REQUIRED CEO OWNERSHIP

There is significant variation in the value of company stock that is required to be held under the CEO stock ownership guidelines. The median CEO ownership requirement is approximately \$5 million, and the highest requirement is \$22.5 million (Mellon Financial Corporation):

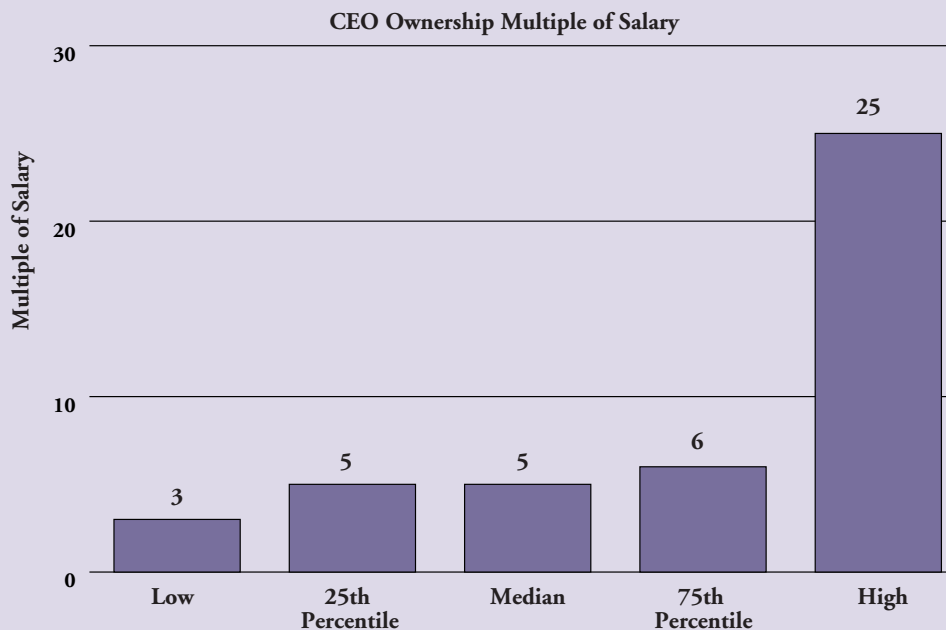


(1) Value calculated using June 30, 2003, closing stock prices, where applicable

(2) Based on 83 companies. Value not calculated for companies that have retention ratio-only or holding period-only guidelines or companies that do not disclose sufficient information for the value of the CEO ownership requirement to be determined

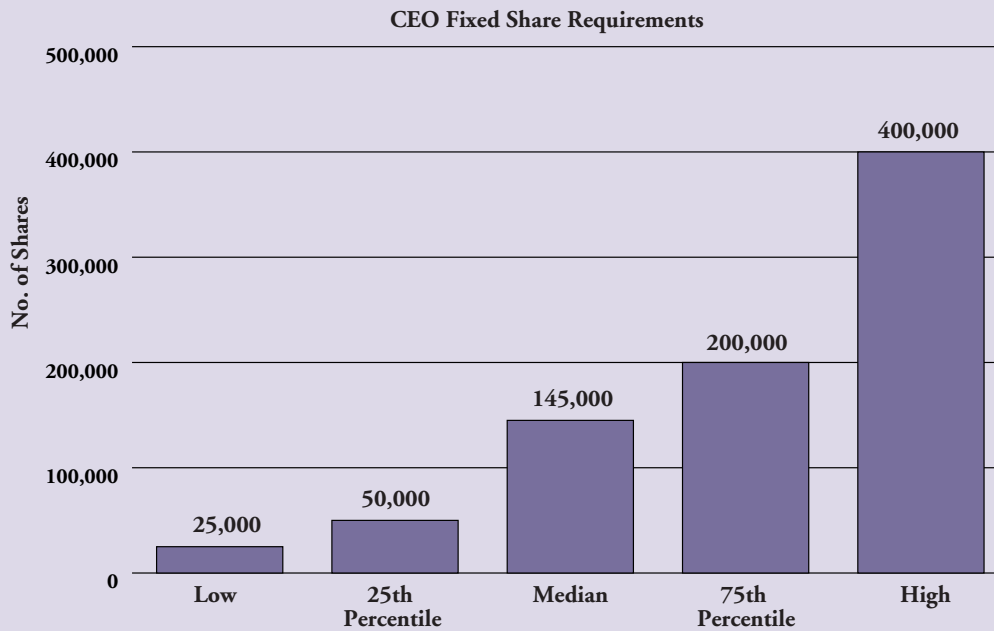
CEO SALARY MULTIPLE

The median CEO multiple of salary is 5X, and the highest multiple is 25X (Mellon Financial Corporation):



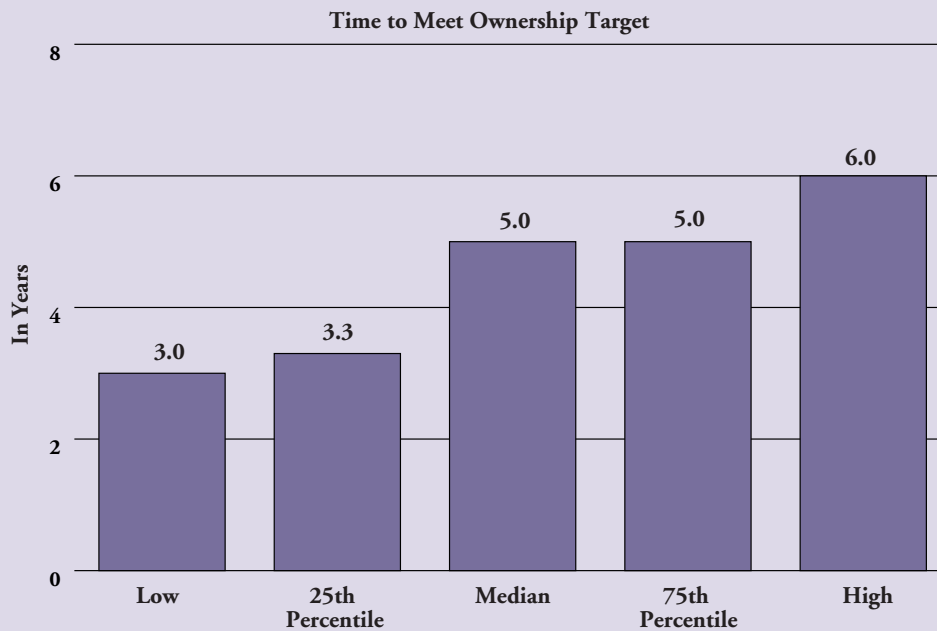
CEO FIXED SHARE REQUIREMENTS

The median number of shares required to be owned is 145,000 shares:



TIME TO MEET OWNERSHIP GUIDELINES

Executives are generally expected to meet traditional ownership requirements within three to five years following implementation or first being subject to the ownership policy:



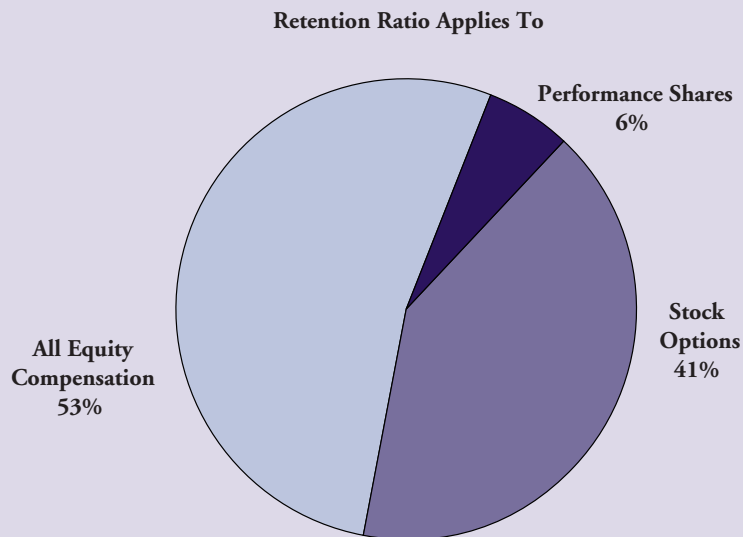
While not reflected in the above summary statistics, an emerging trend, particularly among companies adopting a retention ratio approach, is to eliminate the time requirement for meeting the ownership targets. This is because the retention ratio provides a process for the executives to meet the guidelines; thus, ownership levels will increase to the extent the executive realizes profits from the equity compensation program.

RETENTION RATIOS

Sixteen percent of the companies with guidelines incorporate a retention ratio. Retention ratios may be used in combination with traditional guidelines or as standalone guidelines. Sixty-five percent of the companies using retention ratio guidelines use a retention ratio in combination with traditional stock ownership guidelines. The following examples illustrate various ways in which Top 250 companies use the retention ratio:

- JP Morgan Chase requires senior executives to retain at least 75% of the profit shares from stock options and stock grants for their career with the Company
- Bristol-Myers Squibb, which has multiple-of-salary guidelines, requires executives to retain 100% of the profit shares from option exercise until the ownership guidelines are met. After the guidelines are met, executives are required to retain 25% of the profit shares for the balance of their careers with the Company
- Burlington Northern Santa Fe imposes a 100% retention ratio until multiple-of-salary guidelines are met

The retention ratio typically applies to all equity compensation awards, including stock options, restricted stock and performance shares:



Retention ratios apply before and after ownership guidelines are met at 55% of the companies that use a retention ratio in combination with traditional stock ownership guidelines. This design, as well as standalone retention ratios, support continuous accumulation of company stock throughout an executive's career and mitigate the risk of inappropriate use of inside information.

EXECUTIVE STOCK OWNERSHIP GUIDELINES

The following chart shows the retention ratios in effect at the companies that incorporate a retention ratio:

	Combination Approach Retention Ratio		Retention Ratio Only
	Before Guidelines Met	After Guidelines Met	
Bank One Corp.	75%	75%	
Bristol-Myers Squibb	100%	25%	
Burlington Northern Santa Fe	100%	0%	
Citigroup Inc.	75%	75%	
FleetBoston Financial Corp.	75%	75%	
FPL Group Inc.			100% ⁽¹⁾
Heinz (HJ) Co.	75%	0%	
Hershey Foods Corp.	50%-100% ⁽²⁾	0%	
JP Morgan Chase & Co			75%
Kohls Corp.			Not Disclosed
Mellon Financial Corp.	75%	0%	
Merck & Co.	60%-70%	0%	
MetLife Inc.	Not Disclosed		
Morgan Stanley			75%
Tyco	75%	25%	
Wachovia Corp.	75%	75%	
Wells Fargo & Co.			50%

(1) Applies to performance shares only

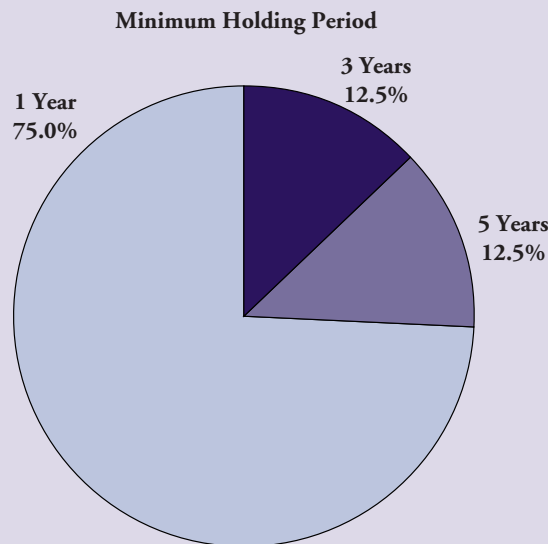
(2) Required to retain 100% of performance stock units and 50% of option profit shares

EXECUTIVE STOCK OWNERSHIP GUIDELINES

HOLDING PERIODS

Requiring executives to retain shares acquired from equity compensation programs ensures that executives do not have the ability to profit based on sudden changes in a company's stock price. Seven percent of the companies with executive ownership guidelines have a holding period requirement, and 63% of these companies use a holding period requirement in combination with traditional stock ownership guidelines. For example, General Electric and Waste Management, which have multiple-of-salary guidelines, require top executives to retain 100% of profit shares from option exercise for at least one year.

The most prevalent minimum holding period is one year.



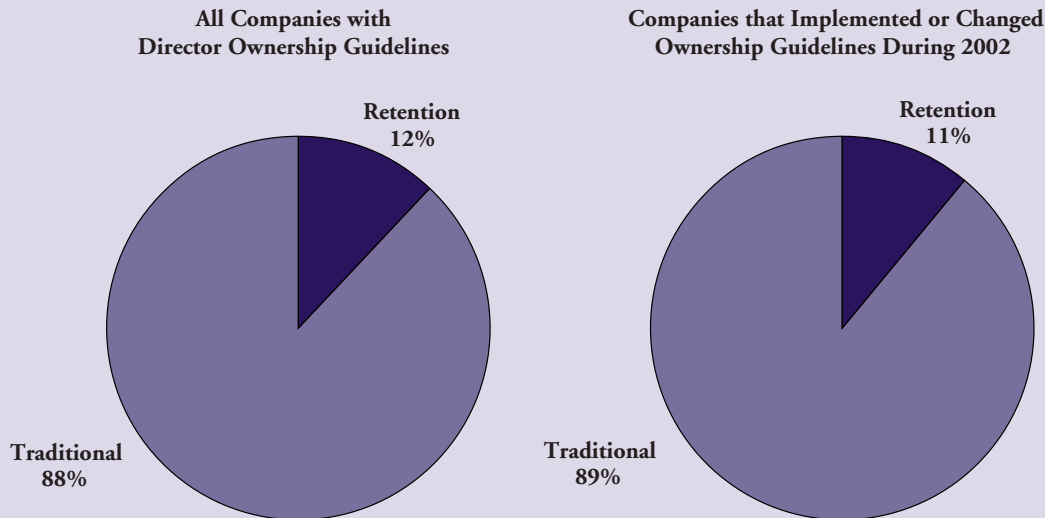
The holding period applies to a percentage of profit shares from option exercises at all of the companies with holding period requirements. Eli Lilly also requires a one-year hold on shares acquired from its performance share program. The following table shows the percent of profit shares that are subject to holding period requirements:

	<u>% Profit Shares Subject to Holding Period</u>
AOL Time Warner Inc.	75%
Bank of America Corp.	100%
Entergy Corp.	75%
Eli Lilly & Co.	100%
General Electric Co.	100%
KeyCorp	100%
PepsiCo Inc.	40% ⁽¹⁾
Waste Management Inc.	100%

(1) Required to hold 80% on a pre-tax basis. Assumes a 50% tax rate

TYPES OF DIRECTOR OWNERSHIP GUIDELINES

Traditional ownership guidelines are used by 88% of the Top 250 companies with director ownership guidelines. There does not appear to be a trend towards using retention-based guidelines for directors, as evidenced by the fact that 89% of the companies that implemented or changed guidelines during the past year use a traditional approach.



The following chart provides a break-out of the types of guidelines in use at the Top 250 companies with formal director ownership policies:

TYPE OF DIRECTOR OWNERSHIP GUIDELINE

	Traditional Approaches				Retention Approaches				Total ⁽¹⁾
	Multiple of Retainer	Fixed Shares	Fixed \$ Amount	Other	Combination Approach		Retention Ratio Only	Holding Period Only	
					Multiple/Fixed Shares or \$	Retention Ratio			
<i>All Companies w/Guidelines</i>									
No. of Companies	31	25	7	5	4	1	3	1	77
% of Total	40%	32%	9%	6%	5%	1%	4%	1%	100%
<i>New/Changes</i>									
No. of Companies	9	8	5	2 ⁽²⁾	0	1	2	0	27
% of Total	33%	30%	19%	7%	0%	4%	7%	0%	100%

(1) Includes only companies that disclose type of guideline (i.e., excludes 2 companies that state that they have guidelines but do not describe them in enough detail to categorize them); total does not add up to 100% due to rounding

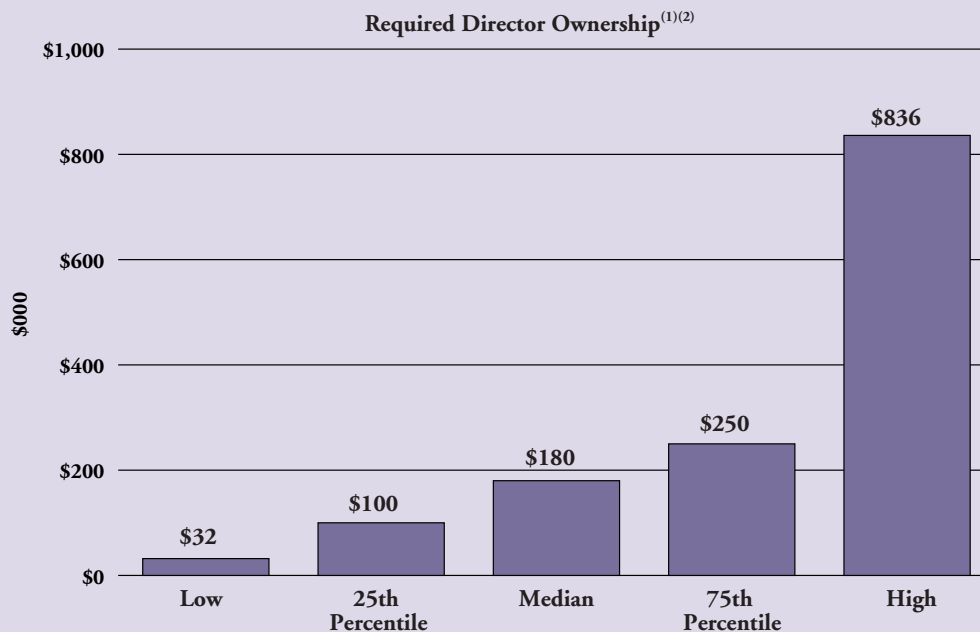
(2) Other includes multiple of annual cash and equity compensation, multiple of equity compensation, and percent of common shares outstanding

DIRECTOR STOCK OWNERSHIP GUIDELINES

For purposes of this report, director compensation that is paid in deferred stock units that are not distributable until termination of board service or later are not considered to be formal ownership guidelines. For example, General Electric, which pays 60% of director compensation in deferred stock units that are not distributed until one year after termination of service, is not considered to have formal ownership guidelines. This design eliminates the need for formal stock ownership guidelines, and is arguably an equally effective means of ensuring that directors acquire and hold significant amounts of company stock. If companies paying directors compensation in deferred stock units that were not distributable until termination of service (or later) were included, 47% of companies would be deemed to have a director ownership policy vs. the 32% that have formal ownership guidelines.

REQUIRED DIRECTOR OWNERSHIP

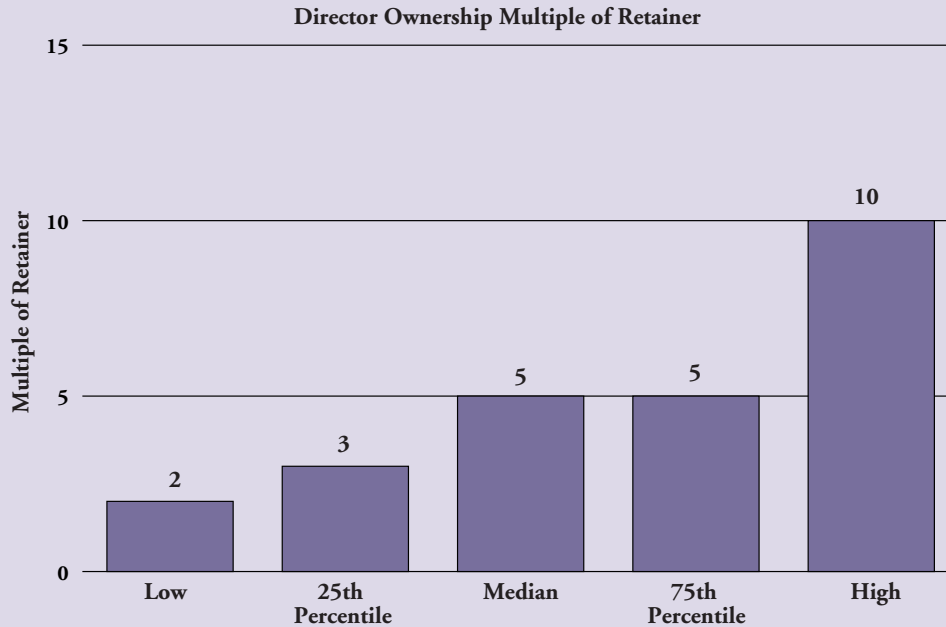
The value of required director stock ownership varies among the companies with guidelines. The median ownership requirement is approximately \$180,000 and the high is approximately \$836,000 (American Express):



- (1) Value calculated using June 30, 2003, closing stock prices, where applicable
- (2) Based on 60 companies. Value not calculated for companies that have retention ratio-only or holding period-only guidelines or companies that do not disclose sufficient information for the value of the director ownership guideline to be determined

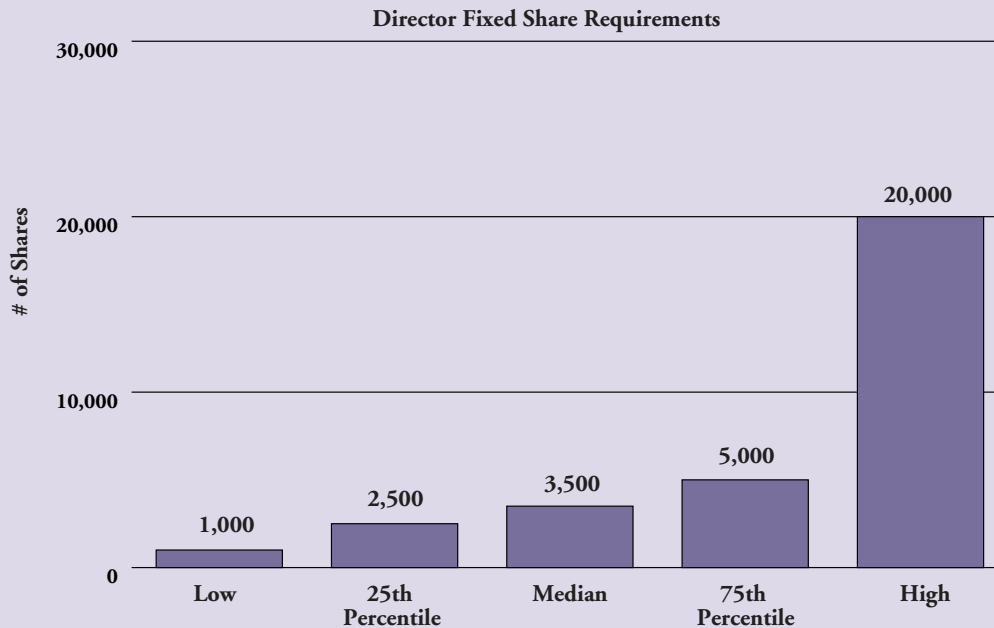
DIRECTOR RETAINER MULTIPLE

The median director multiple of annual retainer is 5X, and the highest multiple is 10X (WellPoint Health Networks):



DIRECTOR FIXED SHARE REQUIREMENTS

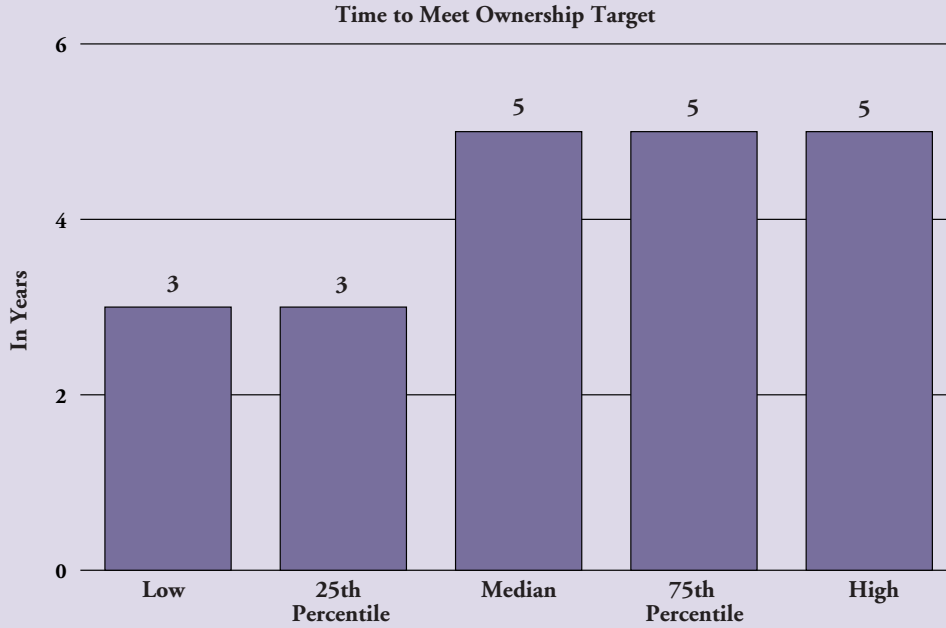
The median director share ownership requirement is 3,500 shares:



DIRECTOR STOCK OWNERSHIP GUIDELINES

TIME TO MEET OWNERSHIP GUIDELINES

Directors are generally expected to meet traditional ownership requirements within three to five years following initial election as a director or implementation of guidelines:



RETENTION RATIOS

Nine percent of companies with director ownership guidelines incorporate a retention ratio. Of these, 57% use a retention ratio in combination with traditional stock ownership guidelines. The following chart shows the retention ratios in effect at the companies that incorporate a retention ratio:

	Combination Approach Retention Ratio			Retention Ratio Applies to		
	Before Guidelines Met	After Guidelines Met	Retention Ratio Only	All Equity	Stock Options	Stock Awards
Bank One Corp.			100%	X		
Bristol-Myers Squibb	25%	0%				X ⁽¹⁾
Citigroup Inc.	75%	75%		X		
General Mills Inc.	100%	0%		X		
Mattel Inc.	100%	0%			X	
Masco Corp.			50%			X ⁽²⁾
Mellon Financial Corp.			75%		X	

(1) Retainer paid in DSUs until ownership guidelines are met
 (2) Restricted stock

HOLDING PERIODS

Only two companies, AOL Time Warner and PepsiCo, impose holding period requirement on directors. AOL Time Warner requires directors to retain 75% of net profit shares for option exercises and restricted stock vesting for at least one year; directors are also subject to minimum stock ownership guidelines. PepsiCo requires directors to hold 80% of pre-tax option gains, net of taxes and broker fees, for at least one year after exercise.

TOP 250 COMPANIES

3M	Bristol-Myers Squibb	Electronic Data Systems
Abbott Laboratories	Burlington Northern Santa Fe	Eli Lilly
ACE Limited	Burlington Resources	EMC
AFLAC	Campbell Soup	Emerson Electric
Air Products and Chemicals	Capital One Financial	Entergy
Albertson's	Cardinal Health	Equity Office Properties
Alcoa	Carnival	Equity Residential
Allergan	Caterpillar	Exelon
Allstate	Cendant	Exxon Mobil
ALLTEL	Charles Schwab	Fannie Mae
Altria Group	Charter One Financial	FedEx
American Electric Power	ChevronTexaco	Fifth Third Bancorp
American Express	Chiron	First Data
American International Group	Chubb	FirstEnergy
Amgen	Cisco Systems	FleetBoston Financial
AmSouth Bancorporation	Citigroup	Ford Motor
Anadarko Petroleum	Clear Channel Communications	Forest Laboratories
Analog Devices	Clorox	Fortune Brands
Anheuser-Busch Companies	Coca-Cola	FPL Group
Anthem	Coca-Cola Enterprises	Franklin Resources
AOL Time Warner	Colgate-Palmolive	Gannett
Apache	Comcast Holdings	Gap
Apollo Group	Comerica	General Dynamics
Applied Materials	Computer Associates International	General Electric
Archer Daniels Midland	ConAgra Foods	General Mills
AT&T	ConocoPhillips	General Motors
AT&T Wireless Services	Consolidated Edison	Genzyme
Automatic Data Processing	Costco Wholesale	Gillette
Avon Products	Countrywide Financial	Golden West Financial
Baker Hughes	CVS	Goldman Sachs Group
Bank of America	Danaher	Guidant
Bank of New York	Deere	H&R Block
Bank One	Dell	H.J. Heinz
Baxter International	Devon Energy	Halliburton
BB&T	Dominion Resources	Harley-Davidson
Becton, Dickinson	Dow Chemical	Hartford Financial Services Group
Bed Bath & Beyond	DTE Energy	HCA
BellSouth	Duke Energy	Hershey Foods
Best Buy	E. I. du Pont de Nemours	Hewlett-Packard
Biomet	Eastman Kodak	Home Depot
Boeing	eBay	Honeywell International
Boston Scientific	Electronic Arts	Illinois Tool Works

TOP 250 COMPANIES

Ingersoll-Rand	National City	Starbucks
Intel	New York Times	State Street
International Business Machines	Newell Rubbermaid	Stryker
International Game Technology	Newmont Mining	Sun Microsystems
International Paper	Nextel Communications	SunTrust Banks
Intuit	NIKE	SYSCO
J.P. Morgan Chase	Norfolk Southern	Target
John Hancock Financial Services	Northern Trust	Tenet Healthcare
Johnson & Johnson	Northrop Grumman	Texas Instruments
Johnson Controls	Occidental Petroleum	TJX Companies
Kellogg	Omnicom Group	Transocean
KeyCorp	Oracle	Travelers Property Casualty
Kimberly-Clark	Paychex	Tribune
KLA-Tencor	PepsiCo	Tyco International
Kohl's	Pfizer	U.S. Bancorp
Kroger	Pitney Bowes	Union Pacific
Lehman Brothers Holdings	PNC Financial Services Group	United Parcel Service
Lexmark International	PPG Industries	United Technologies
Linear Technology	Praxair	UnitedHealth Group
Lockheed Martin	Principal Financial Group	Unocal
Loews	Procter & Gamble	VERITAS Software
Lowe's Companies	Progress Energy	Verizon Communications
Marathon Oil	Progressive	Viacom
Marriott International	Prudential Financial	Wachovia
Marsh & McLennan Companies	Public Service Enterprise Group	Walgreen
Masco	QUALCOMM	Wal-Mart Stores
Mattel	Raytheon	Walt Disney
Maxim Integrated Products	Regions Financial	Washington Mutual
MBNA	Safeway	Waste Management
McDonald's	Sara Lee	WellPoint Health Networks
McGraw-Hill Companies	SBC Communications	Wells Fargo
McKesson	Schering-Plough	Weyerhaeuser
MedImmune	Schlumberger	Wm. Wrigley Jr.
Medtronic	Sears, Roebuck	Wyeth
Mellon Financial	SLM	Xerox
Merck	Southern	Xilinx
Merrill Lynch	SouthTrust	XL Capital
MetLife	Southwest Airlines	Yahoo!
Microsoft	Sprint	YUM! Brands
Moody's	St. Jude Medical	Zimmer Holdings
Morgan Stanley	St. Paul Companies	
Motorola	Staples	

COMPANY PROFILE

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

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

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