

FREDERIC W. COOK & CO., INC.

THE 2003 TOP 250

*Long-term and Stock-based
Grant Practices for Executives*

SEPTEMBER 2003

FREDERIC W. COOK & CO., INC.

A large, stylized teal number '250' is centered on the page. A thick black horizontal bar with rounded ends is superimposed over the middle of the number, containing the text 'THE 2003 TOP 250' in white serif font.

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INTRODUCTION

OVERVIEW

This report presents information on long-term incentive and stock-based grant types in use for executives 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 of February 28, 2003. The information in this report is presented both in summary form and on a company-by-company basis.

BACKGROUND

Since 1973, *Frederic W. Cook & Co.* has published an annual report on long-term incentive grant practices for executives of the largest U.S. companies. This 2003 report, our 31st edition, is based on the 250 largest companies as reported in the Special Spring 2003 issue of *Business Week* magazine ("The Best Performers of the S&P 500").

The following topics are covered in this report:

- Historical, new and prospective long-term incentive grant types
- Stock option features
- Other grant type variations
- Payment of annual incentives in stock
- Adoption of "fair value" accounting for stock-based compensation as prescribed under Financial Accounting Standard 123 ("FAS 123")

Definitions for each grant type appear in the *Appendix*.

In prior years, this report included information regarding stock-based grant practices for directors and stock ownership guidelines for executives and directors. This year, these topics have been covered in separate reports, *Director Compensation: Nasdaq 100 vs. NYSE 100* and *Stock Ownership Policies*, which are available on our website at www.fwcook.com.

OTHER SURVEY PARAMETERS

The information in this report is based on information disclosed in company proxy statements, annual reports, 10-K and 10-Q filings. It should be noted that comparisons to prior year practices do not reflect a constant company population, since, as noted above, a 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 equity grant practices. A total of 37 companies, representing 15% of the companies reviewed, did not appear in last year's report.

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 considered to be in use at a particular company if grants have been made within the latest three fiscal years and there is no evidence that this granting practice has been discontinued, or if the company indicates that the grant will be used prospectively. While most data reflect usage through fiscal year 2002, the survey attempts to present more current grant practices wherever possible.

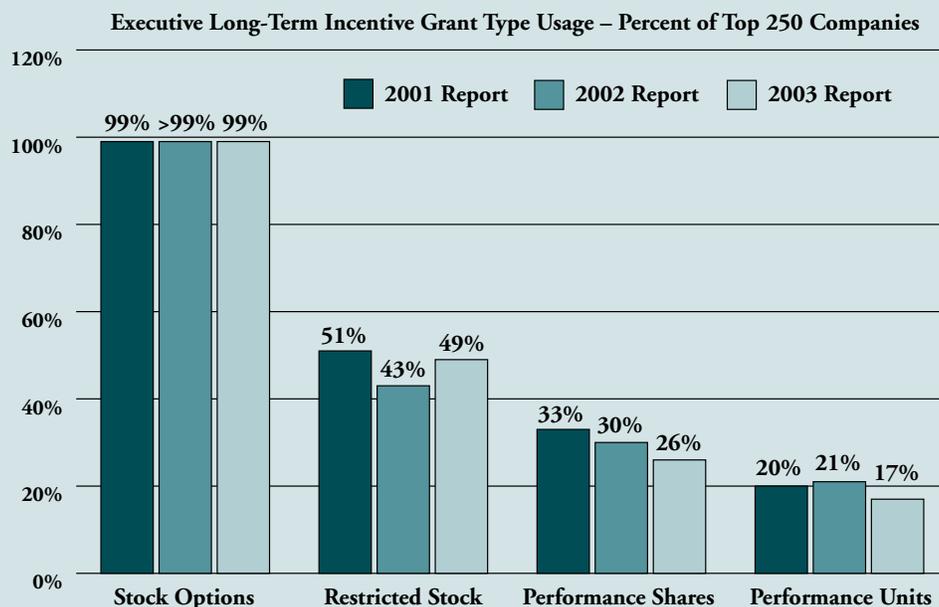
To be considered a "long-term incentive" for purposes of this report, a grant must possess the following characteristics:

- The grant type must generally be made under a formal plan or practice, and may not have *both* limited scope and limited frequency. A grant with *limited scope* is awarded to only a few key executives. A grant with *limited frequency* is an award that is not made consistently. Therefore, a grant determined to be made specifically as a hiring incentive, replacement of lost benefits upon hiring, or promotional award is typically excluded. A grant with limited scope but without limited frequency may be considered a long-term incentive, and vice versa.
- The grant type must not be delivered primarily to accommodate foreign tax or securities laws. For example, a company that grants stock appreciation rights (SARs) in foreign countries as an alternative to the normal award of stock options in the U.S. is not considered to grant SARs as a long-term incentive.

In an effort to identify trends in long-term incentive grant practices, grants have been classified into one of the following three categories:

Historical	Long-term incentives that were in use prior to the latest fiscal year and continue to be used
New	Long-term incentives that were initially used during the latest fiscal year
Prospective	Long-term incentives that have not yet been used, but will be used in the near future according to available disclosure

SUMMARY OF EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES



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. Three of the Top 250 companies have excluded stock options from their long-term incentive programs. Of the 247 companies that grant options, three began granting options last year. Variations of the “plain vanilla” stock option are summarized in greater detail on page 6 of this report.

Restricted Stock includes actual shares or share “units” that are earned solely by continued employment. Forty-nine percent of the Top 250 companies grant restricted stock. This figure *excludes* those companies that use restricted stock grants only in hiring situations or as one-time awards under special circumstances. Forty percent of the Top 250 companies have historically granted restricted stock, 5% began granting restricted stock during the latest fiscal year, and 3% will begin granting restricted stock next year.

Performance Awards consist of stock-denominated performance “shares” and cash-denominated performance “units,” which are earned based on performance over a multi-year period. Forty-two percent of the Top 250 companies use either one or both of these grant types, with more companies using performance shares than performance units. Three percent of the Top 250 companies granted their first performance awards during the latest fiscal year, and another 3% expect to begin granting them next year.

SUMMARY OF EXECUTIVE LONG-TERM INCENTIVE GRANTS TYPES

		Percent of Companies Using Grant Type		
		2003 Report	2002 Report	2001 Report
Overall:	(See Appendix for definition)			
	Any Type of Grant	100%	100%	100%
	Appreciation Grants	99	99	99
	Full-Value Grants	70	65	69
<hr/>				
By Grant Type:				
	Stock Options	99%	>99%	99%
	• Performance	13	16	16
	– <i>Vesting</i>	3	4	6
	– <i>Accelerated-Vesting</i>	10	12	10
	• Restoration (Reload)	14	16	n/a
	• Premium	3	6	9
	• Discount	<1	2	2
	• Indexed	0	0	0
	Restricted Stock	49%	43%	51%
	• PARSAPs	3	2	3
	Performance Shares	26%	30%	33%
	Performance Units	17%	21%	20%
	SARs	1%	1%	2%
	• Tandem	<1	1	2
	• Freestanding	1	0	0
	• Additive	0	0	0
	Tandem Grants	<1%	<1%	<1%
	Formula-Value Grants	<1%	<1%	<1%

Note: n/a indicates that data was not collected for that particular year

EXECUTIVE STOCK OPTION FEATURES

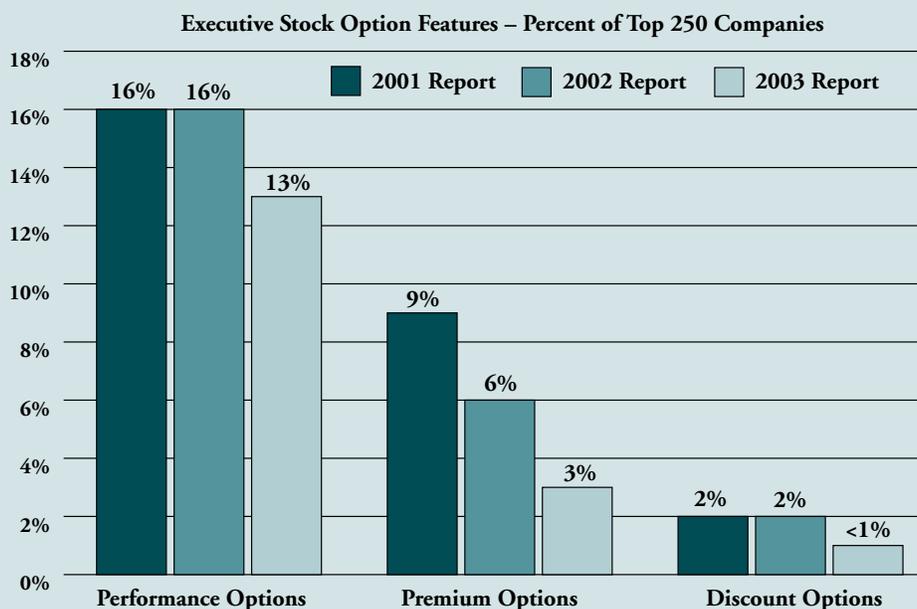
Overview – Among Top 250 companies, 25% incorporate one or more design features into their stock option grants. The following are the principal option grant design features in use at the Top 250 companies:

Performance Stock Options are stock options that have some aspect of their vesting tied to specified performance criteria. Performance options are used by 13% of Top 250 companies. Ten percent of the Top 250 companies use performance criteria to *accelerate* the vesting schedule, thus preserving favorable “fixed” accounting treatment under Accounting Principles Board Opinion No. 25 (“APB 25”). Three percent use performance-vesting options that are forfeited if the performance criteria are not met.

Restoration (Reload) Stock Options are options granted with a feature that typically allows for additional options to be granted to replace or “restore” the already-owned shares exchanged in a “stock-for-stock” exercise. They are designed to encourage management stock ownership. Fourteen percent of the Top 250 companies grant restoration stock options.

Premium and Discount Stock Options have an exercise price *above* or *below* the market price at grant, respectively. Three percent of the Top 250 companies use premium stock options, while Gap is the only Top 250 company that uses discount stock options.

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. No companies in this survey use indexed stock options primarily due to their unfavorable accounting treatment under APB 25.



Performance Stock Options:

Performance Vesting -

Becton Dickinson
E.I. du Pont de Nemours
Hartford Financial Services

Hershey Foods
Ingersoll-Rand
McDonald's
Sears, Roebuck

Performance-Accelerated Vesting -

Allergan
Amgen
ApolloGroup
Bank of America
Bristol-Myers Squibb
Capital One Financial
Chiron
Clorox
Electronic Data Systems
EMC
Genzyme
H&R Block

Hartford Financial Services
J.P. Morgan Chase
Kroger
Lehman Brothers Holdings
Lexmark International
Omnicom Group
Progressive
Raytheon
SLM
SYSCO
Tenet Healthcare
U.S. Bancorp

Restoration Stock Options

3M
Abbott Laboratories
Alcoa
Allstate
Altria Group
American Express
Apache
Bank One
Burlington Northern Santa Fe
Capital One Financial
Chubb
Colgate-Palmolive
ConocoPhillips
E.I. du Pont de Nemours
Entergy
FleetBoston Financial
Illinois Tool Works
International Paper

Kellogg
Lexmark International
Masco
McGraw-Hill Companies
Mellon Financial
Morgan Stanley
National City
Northrop Grumman
PNC Financial Services
PPG Industries
Sara Lee
Sprint
Tribune
Tyco International
Verizon Communications
WellPoint Health Networks
Wells Fargo
XL Capital

Premium Stock Options:

Allergan
AOL Time Warner
Archer Daniels Midland
Chubb

Clorox
E.I. du Pont de Nemours
Gap
Tyco International

Discount Stock Options:

Gap

OTHER EXECUTIVE GRANT TYPE VARIATIONS

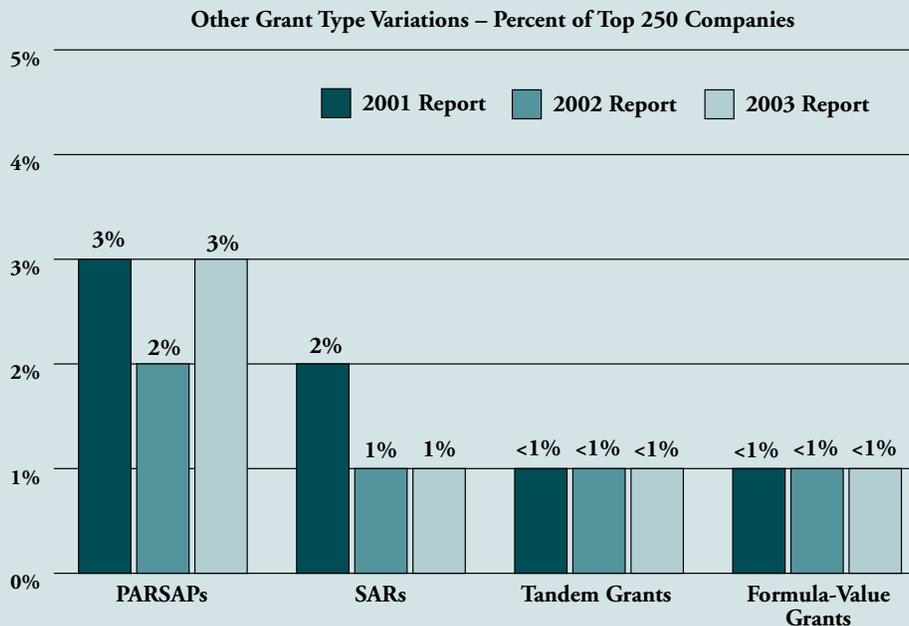
Overview - There are limited instances where other grant type variations (listed below) are in use at the Top 250 companies:

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. There are different types of SARs that can be granted. Tandem SARs are granted in “tandem” with stock options, with the exercise of one canceling the other. Freestanding SARs provide for a payment equal to the appreciation on “phantom” shares, without regard to any stock option, and additive SARs are rights granted in addition to a stock option. Currently, Marathon Oil is the only Top 250 company granting SARs (tandem). Apache and Coca-Cola anticipate granting freestanding SARs next year.

Performance-Accelerated Restricted Stock Award Plans (“PARSAPs”) represent grants of restricted stock or stock units in which time-based restrictions may be accelerated by attainment of specified performance objectives. Currently, 3% of the Top 250 companies grant PARSAPs.

Formula-Value Grants have a value based on a formula relating to financial measures, rather than the market value of company stock. Formula-value grants can be in the form of an “appreciation right” or a “full-value” grant. Johnson & Johnson is the only Top 250 company that makes formula-value grants, using a formula based on net asset value and a capitalized value of earnings averaged over five years.

Tandem Grants represent the simultaneous award of two grant types (other than tandem stock options/SARs) where the exercise or vesting of one grant type cancels the other. Mellon Financial is the only Top 250 company that makes tandem grants, using restricted stock and stock options.



OTHER EXECUTIVE GRANT TYPE VARIATIONS

SARs:

Freestanding -

Apache
Coca-Cola

Tandem -

Marathon Oil

PARSAPs:

Coca-Cola Enterprises
Electronic Data Systems
KeyCorp
Mellon Financial

Regions Financial
Staples
U.S. Bancorp

Formula-Value Grants:

Johnson & Johnson

Tandem Grants:

Mellon Financial

EXECUTIVE ANNUAL INCENTIVES PAID IN STOCK

Annual incentives paid in stock or stock options seek to further align executive pay with shareholder interests and provide increased retention. Fifteen percent of the Top 250 companies have disclosed provisions for mandatory payment of annual incentives in the form of equity. In addition, many companies allow executives to voluntarily receive stock grants in lieu of cash compensation. These programs offer either full-value stock (often through deferral plans) or stock options, and may provide a premium or price discount to encourage participation. The median premium is 25% of the amount elected, i.e. \$1 of deferred bonus is converted into \$1.25 of stock.

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

- **Payment in stock or stock units** typically represents a specified percent of the award payout, as determined by the company's Compensation Committee. Thirty-three companies (13%) disclose the payment of at least a portion of annual incentives in shares of stock or stock units. These shares are typically subject to vesting requirements.
- **Payment in stock options** is less common than payment in stock or stock units, with six companies (2%) providing for mandatory payment in options.

MANDATORY PAYMENT OF ANNUAL INCENTIVES IN STOCK OR STOCK OPTIONS

Stock or Stock Units:

3M	Franklin Resources	Morgan Stanley
Bank of America	Gannett	National City
Bank of New York	General Mills	PNC Financial Services
Bank One	Goldman Sachs Group	PPG Industries
Boeing	H&R Block	Praxair
Citigroup	H.J. Heinz	SLM
Comerica	Johnson & Johnson	St. Paul Companies
Consolidated Edison	Lehman Brothers Holdings	Travelers Property Casualty
E.I. du Pont de Nemours	MBNA	United Parcel Service
Exxon Mobil	Mellon Financial	Walt Disney
FleetBoston Financial	Merrill Lynch	WellPoint Health Networks

Stock Options:

AOL Time Warner	Merrill Lynch	State Street
Bristol-Myers Squibb	Morgan Stanley	
Goldman Sachs Group	Northern Trust	

EXPECTED TRENDS IN EXECUTIVE LONG-TERM AND STOCK-BASED GRANT PRACTICES

The following table identifies potential future trends in executive long-term and stock-based grant practices assuming that option expensing becomes mandatory, and the new accounting rules are similar to those prescribed under FAS 123.

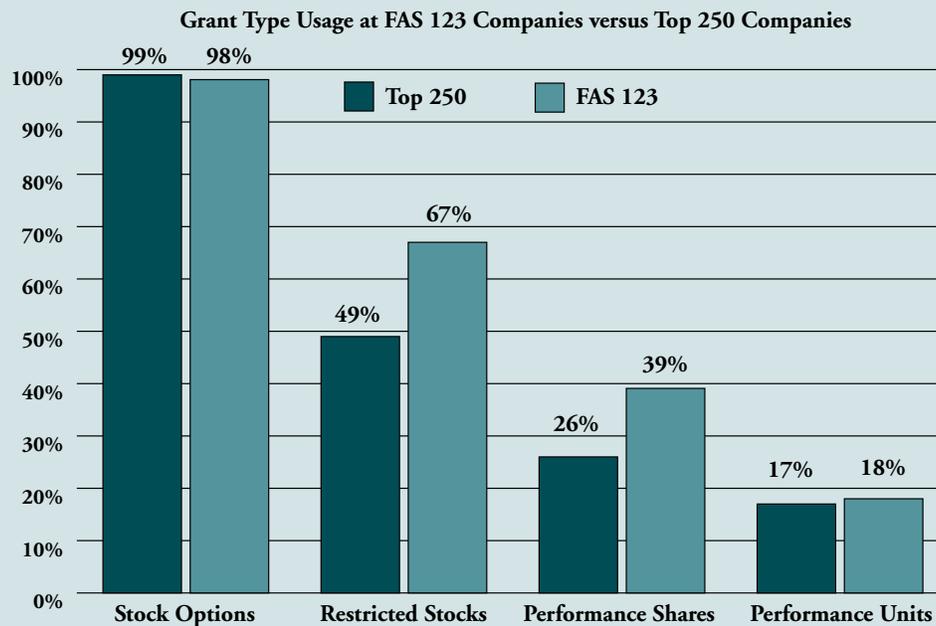
Grant Type	Expected Future Use	Reason
Stock Options		
• <i>“Plain-Vanilla”</i>	Decrease	High cost relative to perceived value
• <i>Performance-Vesting</i>	Increase	Provides a strong link between pay and performance
• <i>Performance-Accelerated Vesting</i>	Decrease	No longer necessary since true performance-vesting alternatives would be available
• <i>Restoration</i>	Decrease	Results in additional and uncontrollable costs
• <i>Premium</i>	Flat	High cost relative to potential value
• <i>Discount</i>	Increase	Low cost relative to value delivered
• <i>Indexed</i>	Flat	Strong linkage to performance; however, complicated design issues
Restricted Stock		
• <i>Time-Vesting</i>	Increase	Alignment with long-term shareholder interests and greater retention power than options
• <i>PARSAPs</i>	Decrease	No longer necessary since true performance-vesting alternatives would be available
Performance Shares	Increase	Combines the performance element of stock options with the retention element of restricted stock
Performance Units	Flat	Strong ties to operational performance; however, little or no linkage to stock performance
SARs Payable in Shares	Increase	Expands the life of the share reserve since fewer shares are issued upon exercise and simplifies exercise by eliminating the need to finance the option exercise or utilize a cashless exercise provision

FAS 123 COMPANIES

In anticipation of mandatory expensing requirements for *all* stock-based grants, 66 of the Top 250 companies (26%) have elected to adopt “fair value” accounting for stock-based grants as prescribed under FAS 123 (“FAS 123 companies”). The most significant ramification of this election is that stock options will now carry an expense equal to their “fair value” on the date of grant.

Of the FAS 123 companies, 18% added at least one new or prospective full-value grant type to their executive compensation program, of which 12% added restricted stock and 8% added performance awards.

Overall, there is a higher prevalence of full-value grants among FAS 123 companies than the Top 250 companies.



Allstate	Equity Office Properties	Morgan Stanley
American Express	Equity Residential	National City
American International Group	Exxon Mobil	PNC Financial Services Group
Anadarko Petroleum	Fannie Mae	Principal Financial Group
AT&T	FleetBoston Financial	Procter & Gamble
Bank of America	Ford Motor	Progressive
Bank of New York	General Electric	Prudential Financial
Bank One	General Motors	SBC Communications
BellSouth	Goldman Sachs Group	Sprint
Boeing	Hartford Financial Services	State Street
Cendant	Home Depot	SunTrust Banks
Chubb	J.P. Morgan Chase	Target
Citigroup	Johnson Controls	Tenet Healthcare
Coca-Cola	KeyCorp	Transocean
Comerica	Lowe's Companies	Travelers Property Casualty
Computer Associates	Marathon Oil	United Parcel Service
ConocoPhillips	Masco	Unocal
Costco Wholesale	Mellon Financial	Verizon Communications
Dow Chemical	Merrill Lynch	Wachovia
E. I. du Pont de Nemours	MetLife	Wal-Mart Stores
Emerson Electric	Microsoft	Washington Mutual
Entergy	Moody's	XL Capital

SUMMARY OF GRANT USAGE BY COMPANY

	EXECUTIVE LONG-TERM INCENTIVE GRANTS						
	Adopted EAS 123	Appreciation		Full Value			Other
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	H=Historical grant type		N=New grant type		P=Prospective grant type		
3M		H				H	
Abbott Laboratories		H		H			
ACE Limited		H		H			
AFLAC		H					
Air Products and Chemicals		H			H		
Albertson's		H		H			
Alcoa		H				H	
Allergan		H					
Allstate	X	H		H		H	
ALLTEL		H				H	
Altria Group				P		H	
American Electric Power		H			H		
American Express	X	H		H		H	H
American International Group	X	H				H	
Amgen		H					
AmSouth Bancorporation		H		H			N
Anadarko Petroleum	X	H		H			
Analog Devices		H					
Anheuser-Busch Companies		H					
Anthem		N		N			H
AOL Time Warner		H		P			
Apache		H	P	H		H	
Apollo Group		H					
Applied Materials		H					
Archer Daniels Midland		H					
AT&T	X	H		H		H	
AT&T Wireless Services		H		H			
Automatic Data Processing		H		H			
Avon Products		H		H			N
Baker Hughes		H		H			N
Bank of America	X	H		H			
Bank of New York	X	H		H		H	
Bank One	X	H		H			
Baxter International		H					
BB&T		H					H
Becton, Dickinson		H					
Bed Bath & Beyond		H					
BellSouth	X	H		H		H	
Best Buy		H		H			
Biomet		H					
Boeing	X	H		H		H	
Boston Scientific		H		H			
Bristol-Myers Squibb		H		H		H	

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	EXECUTIVE LONG-TERM INCENTIVE GRANTS						
	Adopted EAS 123	Appreciation		Full Value			Other
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	H=Historical grant type		N=New grant type		P=Prospective grant type		
Burlington Northern Santa Fe		H		H		N	
Burlington Resources		H		H		H	
Campbell Soup		H		H		H	
Capital One Financial		H		H			
Cardinal Health		H		H			
Carnival		H		H			
Caterpillar		H		H			H
Cendant	X	H		H			
Charles Schwab		H					
Charter One Financial		H					
ChevronTexaco		H				H	
Chiron		H					
Chubb	X	H		H		H	
Cisco Systems		H					
Citigroup	X	H		H			
Clear Channel Communications		H					
Clorox		H				H	
Coca-Cola	X	H	P	H			H
Coca-Cola Enterprises		H			H		
Colgate-Palmolive		H		H			
Comcast Holdings		H					
Comerica	X	H		H			H
Computer Associates International	X	H		N			
ConAgra Foods		H		H		H	
ConocoPhillips	X	H		N			
Consolidated Edison		H		H			
Costco Wholesale	X	H					
Countrywide Financial		H					
CVS		H				H	
Danaher		H					
Deere		H		P		P	
Dell		H					P
Devon Energy		H					
Dominion Resources				H			
Dow Chemical	X	H				H	
DTE Energy		H		H		H	
Duke Energy		H				P	
E. I. du Pont de Nemours	X	H					
Eastman Kodak		H		H		H	
eBay		H					
Electronic Arts		H					
Electronic Data Systems		H		H	H		
Eli Lilly		H				H	

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	EXECUTIVE LONG-TERM INCENTIVE GRANTS						
	Adopted EAS 123	Appreciation		Full Value			Other
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	H=Historical grant type		N=New grant type		P=Prospective grant type		
EMC		H					
Emerson Electric	X	H		H		H	
Entergy	X	H				H	
Equity Office Properties	X	H		H			
Equity Residential	X	H		H		H	
Exelon		H				H	
Exxon Mobil	X	H		H			H
Fannie Mae	X	H				H	
FedEx		H		H			H
Fifth Third Bancorp		H					
First Data		H					H
FirstEnergy		H		H			H
FleetBoston Financial	X	H		H		P	
Ford Motor	X	H		H		H	
Forest Laboratories		H					
Fortune Brands		H				H	
FPL Group		H		H		H	
Franklin Resources		H					
Gannett		H					
Gap		H					
General Dynamics		H		H			
General Electric	X	H		H			H
General Mills		H		H			
General Motors	X	H				H	
Genzyme		H					
Gillette		H					
Golden West Financial		H					
Goldman Sachs Group	X	H		H			
Guidant		H					
H&R Block		H		H			
H.J. Heinz		H		N			
Halliburton		H		H			H
Harley-Davidson		H					
Hartford Financial Services Group	X	H					
HCA		H		H			
Hershey Foods		H				H	
Hewlett-Packard		H					
Home Depot	X	H		H			N
Honeywell International		H		N			
Illinois Tool Works		H		N			
Ingersoll-Rand		H		H		H	
Intel		H					
International Business Machines		H		H		H	

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	EXECUTIVE LONG-TERM INCENTIVE GRANTS						
	Adopted EAS 123	Appreciation		Full Value			Other
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	H=Historical grant type		N=New grant type		P=Prospective grant type		
International Game Technology		H					
International Paper		H			H		
Intuit		H					
J.P. Morgan Chase	X	H		H		H	
John Hancock Financial Services		H		H			
Johnson & Johnson		H					Formula (H)
Johnson Controls	X	H				H	
Kellogg		H		H		H	
KeyCorp	X	H		N	N		
Kimberly-Clark		H		H			
KLA-Tencor		H					
Kohl's		H					
Kroger		H		H			
Lehman Brothers Holdings		H		H		H	
Lexmark International		H					P
Linear Technology		H					
Lockheed Martin		H		H			H
Loews		H					
Lowe's Companies	X	H		P			
Marathon Oil	X	H	H	H		H	
Marriott International		H		H			
Marsh & McLennan Companies		H		H			
Masco	X	H		H			
Mattel		H					H
Maxim Integrated Products		H					
MBNA		H		H			
McDonald's		H					H
McGraw-Hill Companies		H				H	
McKesson		H		N			H
MedImmune		H					
Medtronic		H				H	
Mellon Financial	X	H		H	H		Tandem (H)
Merck		H					
Merrill Lynch	X	H		H			
MetLife	X	H					H
Microsoft	X			P			
Moody's	X	H					
Morgan Stanley	X	H		H			
Motorola		H					H
National City	X	H		H			H
New York Times		H		H			H
Newell Rubbermaid		H					
Newmont Mining		H					H

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	Adopted EAS 123	Appreciation		Full Value			Other
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	H=Historical grant type		N=New grant type		P=Prospective grant type		
Nextel Communications		H				H	
NIKE		H				H	
Norfolk Southern		H			H		
Northern Trust		H	H				
Northrop Grumman		H			H		
Occidental Petroleum		H	H		H		
Omnicom Group		H	H		H		
Oracle		H					
Paychex		H					
PepsiCo		H				H	
Pfizer		H	H		H		
Pitney Bowes		H				H	
PNC Financial Services Group	X	H	H		H		
PPG Industries		H			H		
Praxair		H					
Principal Financial Group	X	N			H		
Procter & Gamble	X	H				H	
Progress Energy		H	H		H		
Progressive	X	H	P				
Prudential Financial	X	N	P		P		
Public Service Enterprise Group		H					
QUALCOMM		H					
Raytheon		H	H				
Regions Financial		H		H			
Safeway		H					
Sara Lee		H	N				
SBC Communications	X	H			H		
Schering-Plough		H	H				
Schlumberger		H					
Sears, Roebuck		H	H		H		
SLM		H	H				
Southern		H					
SouthTrust		H			H		
Southwest Airlines		H					
Sprint	X	H	N				
St. Jude Medical		H					
St. Paul Companies		H	H				
Staples		H		H			
Starbucks		H					
State Street	X	H			H		
Stryker		H					
Sun Microsystems		H					
SunTrust Banks	X	H				H	

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	EXECUTIVE LONG-TERM INCENTIVE GRANTS						
	Adopted EAS 123	Appreciation		Full Value			Other
		Stock Options	SARs	Restricted Stock	PARSAPs	Performance Shares	Performance Units
	H=Historical grant type		N=New grant type		P=Prospective grant type		
SYSCO		H					
Target	X	H			N		
Tenet Healthcare	X	H					
Texas Instruments		H					
TJX Companies		H				H	
Transocean	X	H	H				
Travelers Property Casualty	X	H	H				
Tribune		H					
Tyco International		H	N				
U.S. Bancorp		H	H	N			
Union Pacific		H	H		H	H	
United Parcel Service	X	H					
United Technologies		H					
UnitedHealth Group		H				H	
Unocal	X	H			H		
VERITAS Software		H					
Verizon Communications	X	H			P		
Viacom		H					
Wachovia	X	H	H				
Walgreen		H	H				
Wal-Mart Stores	X	H	H				
Walt Disney		H	N		N		
Washington Mutual	X	H			H		
Waste Management		H					
WellPoint Health Networks		H	H				
Wells Fargo		H	H				
Weyerhaeuser		H					
Wm. Wrigley Jr.		H	H		H		
Wyeth		H			H		
Xerox		H	H				
Xilinx		H					
XL Capital	X	H	H				
Yahoo!		H					
YUM! Brands		H					
Zimmer Holdings		H	H				

APPENDIX: CLASSIFICATION OF GRANT TYPES

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, “full-value” grants, and “formula-value” grants as summarized below:

Appreciation Grants:

- Stock Options
- Stock Appreciation Rights (SARs)

Full-Value Grants:

- Performance Units
- Performance Shares
- Restricted Stock
- Performance Accelerated Restricted Stock Award Plans (PARSAPs)

Formula-Value Grants:

- Formula-Value Grant

Appreciation grants typically have no intrinsic value at the time of grant and depend upon the appreciation of a company’s stock price to deliver value to the recipient. Full-value grants, on the other hand, have value at the time of grant and may either increase or decrease in value depending on company performance and/or subsequent changes in stock price. Formula-value grants use financial measures instead of stock price to determine value and may be either an appreciation grant or a full-value grant.

Definitions for each of the above grant types, as well as other grant type variations, appear on the following pages of this *Appendix*.

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% of market value at the time of grant, but several variations of this “plain-vanilla” type option are frequently used in practice:

- **Performance-Accelerated Stock Options (“PASOPs”)** are options that have a set vesting schedule, but may be exercised earlier if specified performance criteria are met, e.g., attaining specific stock price goals. Options with performance-accelerated vesting provisions eventually become exercisable later in their option term regardless of attaining the performance goals.
- **Performance-Vesting Stock Options** are considered to have “vesting with teeth”, because the options are forfeited if predetermined performance criteria are not met prior to or by the end of the option term. These grants are generally limited to the CEO and other senior executives.
- **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 the movement of the index itself. Indexed options differ from performance options in that the exercise price of indexed options typically remains variable until the option is exercised.

Stock Appreciation Rights (“SARs”) are rights to receive the increase between the grant price and market price of the company stock. This survey covers three types of market-based SARs:

- **Tandem SARs** are rights to receive the gain on a stock option in lieu of exercising the option, with the exercise of one canceling the other.
- **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 are typically used to offset income taxes on the related stock option gain, as well as the tax on the SAR payment.

APPENDIX: DEFINITION OF GRANT TYPES

FULL-VALUE GRANTS

Performance Units are grants of cash or dollar-denominated units whose payment or value is contingent on performance against predetermined objectives over a multi-year period of time. Actual payouts may be in cash or stock.

Performance Shares are grants of actual shares of stock or stock “units” whose payment is contingent on performance as measured against predetermined objects over a multi-year period of time, and differ from performance units in that the value paid fluctuates with stock price changes, as well as performance against objectives. The payout may be settled in cash or stock.

Restricted Stock consists of grants of actual shares of stock or stock “units” subject to restrictions and risk of forfeiture until vested by continued employment. Typically, dividends or dividend equivalents are paid during the restriction period, either currently or reinvested, and subject to the same restrictions and risk of forfeiture.

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. Otherwise, a time-vesting schedule remains in effect.

FORMULA-VALUE GRANTS

Formula-Value Grants are rights to receive value based on a formula using financial measures rather than the market value of company stock, e.g., book value per share. Final value delivered is either the appreciation over the initial grant value and the value of the grant at exercise, like a SAR, or the full value of a formula-derived “share,” resembling restricted stock.

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OUR OFFICE LOCATIONS:

New York

90 Park Avenue
35th Floor
New York, NY 10016
212-986-6330 phone
212-986-3836 fax

Chicago

One North Franklin
Suite 910
Chicago, IL 60606
312-332-0910 phone
312-332-0647 fax

Los Angeles

2121 Avenue of the Stars
Suite 990
Los Angeles, CA 90067
310-277-5070 phone
310-277-5068 fax

Website address:
www.fwcook.com

This report was prepared by David Yang with research assistance from David Cole, Justin Fossbender, Michael Reznick, DJ Shetty, Cimi Silverberg and Robert Timmerman. Questions and/or comments should be directed to David Yang at dkyang@fwcook.com.

