

F R E D E R I C W. C O O K & C O., I N C.

THE 2001 TOP 250

Long-Term  
*and*  
Stock-Based  
Grant  
Practices  
*for*  
Executives  
*and*  
Directors

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# INTRODUCTION

## Overview

This report presents information on long-term incentive and stock-based grant types currently in use for executives and non-employee directors of the 250 largest companies in the Standard & Poor's 500 Index. Selection of these companies is based on their total market capitalization, i.e., share price multiplied by total shares outstanding. 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 2001 report, our twenty-ninth edition, is based on the 250 largest companies as reported in the Special Spring 2001 issue of *Business Week* magazine ("The Top Companies of the S&P 500").

The following topics are covered in this report:

### Executives:

- Long-term incentive grants
- Stock option variations
- Other grant type variations
- Payment of annual incentives in stock

### Directors:

- Stock-based grants
- Elections to receive stock in lieu of cash

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

## Other Survey Parameters

The information in this report is based on company proxy statements, annual reports, and 10-K filings. In cases where publicly available information is unclear, direct inquiries may be made to the company. 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 as well as actual changes in grant practices. A total of fifty-four companies, representing twenty-two percent of the companies reviewed, are new to this year's report.

### Executive Long-Term Incentive Grants

The information presented throughout this report focuses on long-term incentive grants actually being *used*, 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 prior three years, and there is no evidence that this granting practice has been discontinued. While most data reflect usage through fiscal year 2000, the survey attempts to present more current grant practices wherever possible.

For the purpose of this report, a "long-term incentive" grant must possess the following characteristics:

- The grant must generally be made under a formal plan or practice, and not be part of an individual agreement, arrangement, or contract. Therefore, a grant determined to be made specifically as a hiring incentive, replacement of lost benefits upon hiring, or other unique situation is typically excluded. There are instances,

however, where a specific grant type is reported as being used, even though the only recipients appear to be the chief executive officer (CEO) and/or other top executives, and the purpose of the grant is not determinable. In these situations, the grant is typically included.

- The grant must not be merely a form of payment under an annual or other long-term incentive plan.
- 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.

### Non-Employee Director Stock-Based Grants

With respect to non-employee directors, a stock-based grant type is considered to be in use if the most recent disclosure indicates either that the particular grant type is being used, or that it could be granted in lieu of cash compensation, regardless of whether such election is actually made. Where companies disclose a prospective change in their directors' compensation, the new program, rather than past practice, is reflected.

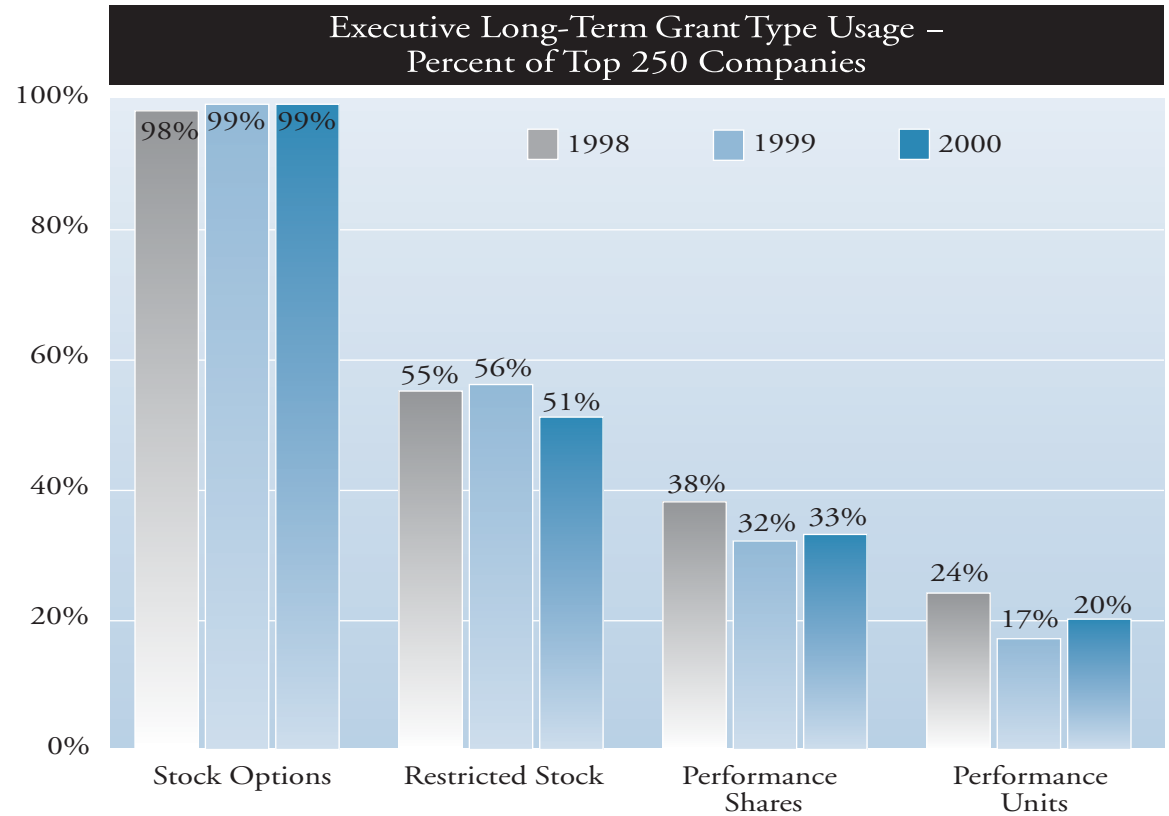
## Summary of Major Executive Long-Term Incentive Grant Types In Use

**Stock Options** are rights to purchase company stock at a specified exercise price over a stated option term, and represent the most widely used long-term incentive grant type among the Top 250 companies; in fact, all but three companies grant stock options. Variations of “plain vanilla” stock options 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. Currently, fifty-one percent of the Top 250 companies grant restricted stock.

**Performance Awards** consist of stock-denominated performance “shares” and cash-denominated performance “units,” which are earned over a multi-year performance period. Currently, forty-nine percent of the Top 250 companies use either one or both of these grant types, with more companies using performance shares than performance units.

Use of full-value grant types, which include restricted stock and



performance awards, has declined in each of the last two years as more stock option-only companies joined the Top 250. Recent stock market declines may cause this trend to reverse in future years.

## Summary of Executive Long-Term Incentive Grants

		Percent of Companies Using Grant Type		
		2000	1999	1998
<b>Overall:</b> (See Appendix for definition)	<i>Any Type of Grant</i>	100%	100%	100%
	<i>Appreciation Grants</i>	99	99	98
	<i>Full-Value Grants</i>	69	72	77
<b>By Grant Type:</b>	<i>Stock Options</i>	99%	99%	98%
	• Performance	16	18	20
	• Premium	9	9	10
	• Discount	2	2	1
	• Indexed	0	<1	0
	<i>Restricted Stock</i>	51%	56%	55%
	• PARSAPs	3	4	2
	<i>Performance Shares</i>	33%	32%	38%
	<i>Performance Units</i>	20%	17%	24%
	<i>SARs</i>	2%	3%	4%
	• Tandem	2	2	1
	• Freestanding	0	1	3
	• Additive	0	0	0
	<i>Tandem Grants</i>	<1%	1%	2%
	<i>Formula-Value Grants</i>	<1%	<1%	1%

## Executive Stock Option Variations

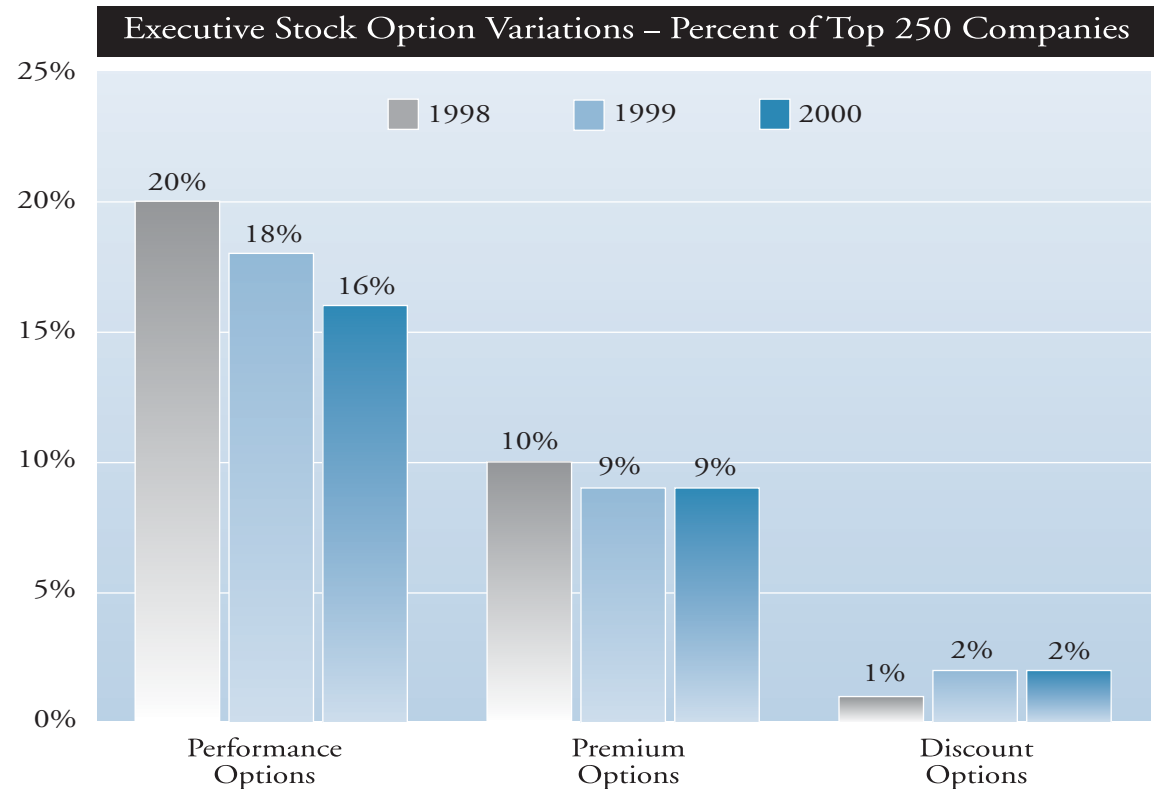
**Overview** – Twenty-two percent of companies with stock options incorporate one or more design variations into their stock option grants. The following are the principal option grant design variations in use at the Top 250 companies:

**Performance Stock Options** are stock options that have some aspect of their vesting tied to specified performance criteria. Sixteen percent of Top 250 companies use performance options. Of these, sixty-five percent use performance criteria to accelerate the vesting schedule, thus preserving favorable “fixed” accounting treatment under APB Opinion No. 25. The remaining companies use performance-vesting options that are forfeited if the performance criteria are not met.

**Premium and Discount Stock Options** have an exercise price above or below the market price at grant, respectively. Nine percent of Top 250 companies use premium options. Use of discount options continues to be rare (only 2% of Top 250 companies), assumedly due to negative accounting consequences.

**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 perfor-

mance relative to a specified index or the movement of the index itself. There are no indexed stock options reported in this survey, assumedly due to negative accounting consequences.



## Executive Stock Option Variations – Top 250 Companies Using

<b>Performance Stock Options:</b>	<i>Performance Vesting -</i> Becton, Dickinson Citigroup Colgate-Palmolive Conoco Dow Chemical	DuPont First Data Hartford Financial Services Group Hershey Foods	Hewlett-Packard Honeywell International KeyCorp MBNA	Sears, Roebuck St. Paul Companies Unocal
	<i>Performance Accelerated Vesting -</i> Allergan American Express Baxter International Bristol-Myers Squibb Capital One Financial Chiron Clorox	Deere Franklin Resources Hartford Financial Services Group Heinz (H.J.) Hewlett-Packard J.P. Morgan Chase	Kroger Lehman Brothers Holdings Raytheon Rockwell International Starbucks Sysco Tyco International	U.S. Bancorp Union Pacific USA Education Waste Management Williams Companies Xcel Energy
<b>Premium Stock Options:</b>	Air Products & Chemicals Allergan AOL Time Warner Archer Daniels Midland Bank of America Baxter International	Chubb Clorox Coca-Cola Enterprises Colgate-Palmolive Comcast Deere	Disney (Walt) DuPont Federated Department Stores First Data Gap Global Crossing	KeyCorp PNC Financial Services Group Sears, Roebuck Tyco International Unocal
<b>Discount Stock Options:</b>	Calpine Cendant	EMC Global Crossing	Hewlett-Packard	Network Appliance



## 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:

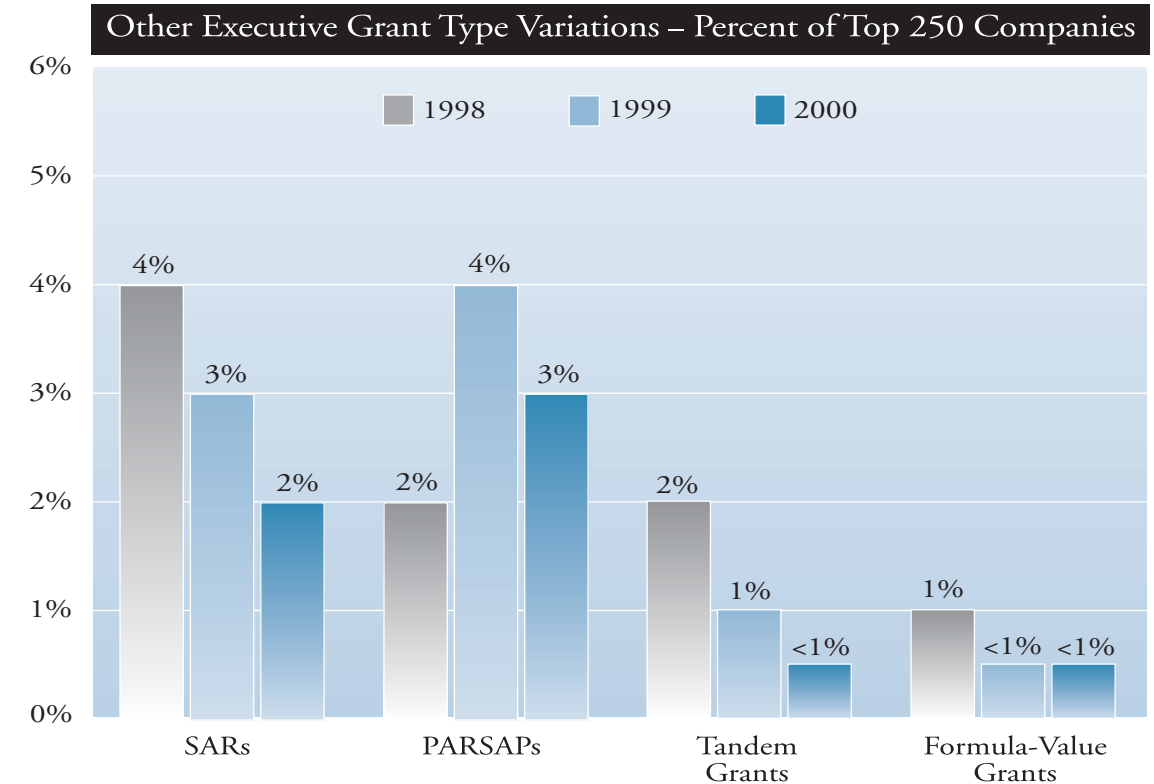
**Stock Appreciation Rights (“SARs”)** are rights to receive at exercise the increase between the grant price and the market price of a share of stock. There are different types of SARs that can be granted. Tandem SARs are granted in combination with stock options, with the exercise of one canceling 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, two percent of the Top 250 companies use tandem SARs. There are no freestanding or additive SARs reported in this survey.

**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, three percent of the Top 250 companies grant PARSAPs.

**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. Only International Paper makes tandem grants, using restricted stock and stock options.

**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. Only Johnson & Johnson makes formula-value grants, using a formula based on net asset value and a capitalized value of earnings averaged over five years.



## Executive Grant Type Variations – Top 250 Companies Using

<p><b>SARs:</b></p> <ul style="list-style-type: none"> <li>Tandem</li> </ul>	<p>Comcast Ford Motor</p>	<p>Philip Morris</p>	<p>USX-Marathon Group</p>
<p><b>PARSAPs:</b></p>	<p>Duke Energy Electronic Data Systems Enron</p>	<p>Hartford Financial Services Group Masco</p>	<p>Mellon Financial Motorola U.S. Bancorp</p>
<p><b>Tandem Grants:</b></p> <ul style="list-style-type: none"> <li>Stock Options/ Performance Units</li> </ul>	<p>International Paper</p>		
<p><b>Formula-Value Grants:</b></p>	<p>Johnson &amp; Johnson</p>		

## Executive Annual Incentives Paid In Stock or Stock Options

**Annual incentives paid in stock or stock options** seek to further align executive pay with shareholder interests and provide increased retention. Of the Top 250 companies, fifteen percent have disclosed provisions for mandatory payment of annual incentives in some form of equity-based vehicle. 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 to encourage participation.

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

- *Payment in stock or stock units* typically represent a specified percentage of the award payout, as determined by the company's Compensation Committee. Thirty-five companies (14%) disclose that they pay at least a portion of annual incentives in shares of stock or stock units.
- *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 – Top 250 Companies Using

### Stock or Stock Units:

American Home Products	El Paso Energy	Lehman Brothers Holdings	Procter & Gamble
Bank One	Electronic Data Systems	Marriott International	Providian Financial
Boeing	First Union	Masco	TXU
Carnival	Franklin Resources	Mellon Financial	Tyco International
Cigna	Gannett	Merrill Lynch	Unocal
Citigroup	Halliburton	Minnesota Mining &	USA Education
Computer Associates	HCA	Manufacturing	Williams Companies
International	J.P. Morgan Chase	Morgan Stanley	
Conoco	Johnson & Johnson	National City	
DuPont	KeyCorp	PPG Industries	

### Stock Options:

AES	Calpine	Morgan Stanley	Procter & Gamble
Bristol-Myers Squibb	Merrill Lynch		

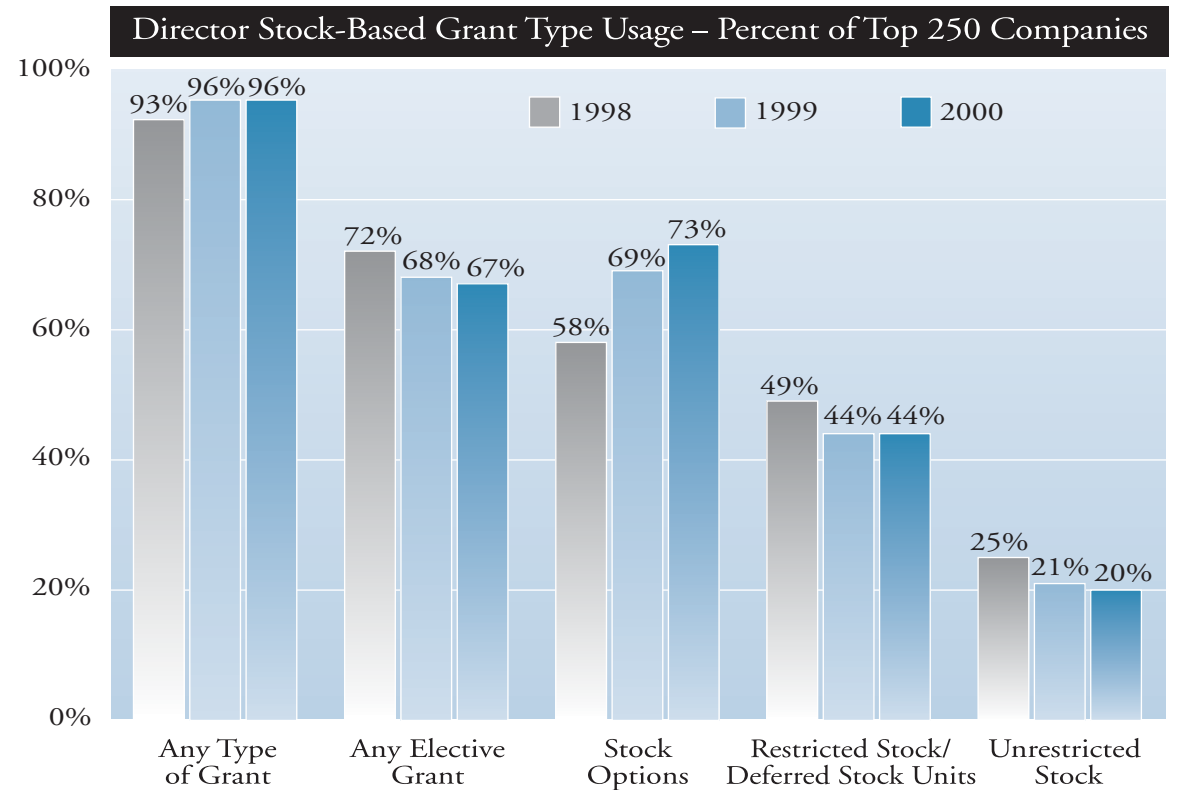
## Summary of Director Stock-Based Grants

**Overview** – Ninety-six percent of the Top 250 companies pay all or a portion of their non-employee directors’ compensation in stock or stock options.

**Stock Options** continue to increase in use, with seventy-three percent of the Top 250 companies granting stock options. Most stock option grants to non-employee directors are “plain-vanilla” stock options.

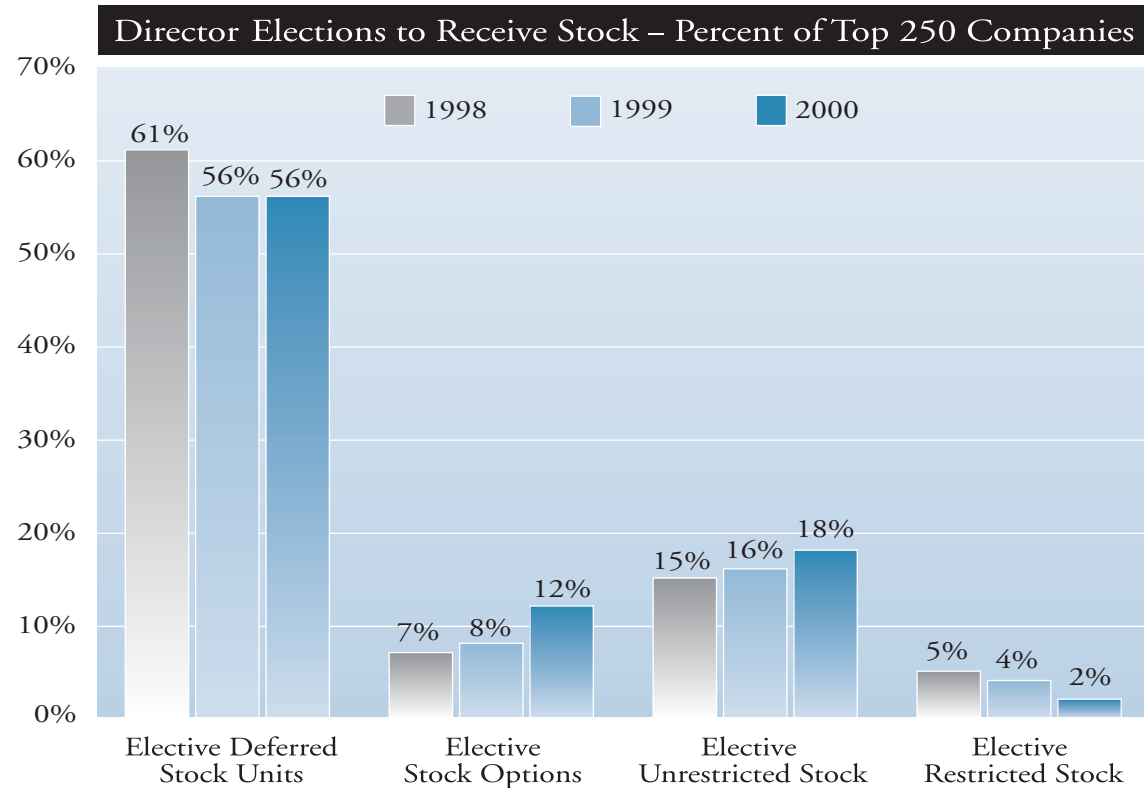
**Restricted Stock/Deferred Stock Unit** grants are currently used by forty-four percent of the Top 250 companies. These shares are restricted from sale or transfer, usually until retirement from the Board.

**Unrestricted Stock** is granted by twenty percent of the Top 250 companies. These shares are free of any transferability restrictions and are typically granted in lieu of all or a portion of the cash annual retainer.



**Elections to Receive Stock** are offered by sixty-seven percent of the Top 250 companies. Under any of the variations identified below, directors may elect to convert all or a portion of their cash retainers and fees into company stock. Some companies encourage directors to acquire company stock through discounted stock purchase or stock matching programs.

- *Deferred Stock Units* allow cash compensation to be deferred as stock units. Actual shares and accumulated dividends are typically paid out upon retirement or another specified date.
- *Stock Options* may be elected in lieu of cash compensation, e.g., at an exchange ratio of three or four dollars of option face value for each dollar forgone.
- *Restricted or Unrestricted Stock* is simply the election to be paid in shares instead of cash.



Summary of Executive and Director Grant Type Usage by Company

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS					DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value		Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units
ABBOTT LABORATORIES	•		•				•		•	Options
ADC TELECOMMUNICATIONS	•					•				
AES	•					•			•	Options
AFLAC	•					•				
AGILENT TECHNOLOGIES	•					•				Options
AIR PRODUCTS & CHEMICALS	•			•		•	•		•	
ALBERTSON'S	•			•				•	•	Options
ALCOA	•				•				•	
ALLERGAN	•		•				•		•	
ALLSTATE	•		•		•	•	•		•	Stock
ALLTEL	•				•	•	•			Rest. Stock
ALTERA	•					•				
ALZA	•		•			•				
AMERICAN ELECTRIC POWER	•			•			•		•	Stock
AMERICAN EXPRESS	•		•	•	•	•		•	•	
AMERICAN GENERAL	•		•	•		•	•		•	
AMERICAN HOME PRODUCTS	•			•		•	•		•	
AMERICAN INTERNATIONAL GROUP	•			•		•		•		
AMGEN	•					•				
ANADARKO PETROLEUM	•		•			•	•			Stock
ANALOG DEVICES	•		•			•				
ANHEUSER-BUSCH	•					•			•	Stock
AOL TIME WARNER	•					•				
AON	•		•					•	•	
APPLIED MATERIALS	•					•				
ARCHER DANIELS MIDLAND	•						•			
AT&T	•		•	•		•	•		•	
AUTOMATIC DATA PROCESSING	•		•			•				
AVON PRODUCTS	•		•			•	•		•	
BAKER HUGHES	•		•			•			•	
BANK OF AMERICA	•		•					•	•	
BANK OF NEW YORK	•		•	•				•	•	

**Summary of Executive and Director Grant Type Usage by Company**

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
BANK ONE	•		•	•				•	•	Options/Stock	
BAXTER INTERNATIONAL	•					•					
BB&T	•				•					Options	
BECTON, DICKINSON	•					•	•		•		
BELLSOUTH	•		•		•	•		•	•		
BEST BUY	•					•			•		
BIOGEN	•					•					
BOEING	•		•	•		•	•		•		
BRISTOL-MYERS SQUIBB	•		•		•	•	•		•		
BROADCOM	•					•					
BURLINGTON NORTHERN SANTE FE	•		•			•	•		•	Rest. Stock	
BURLINGTON RESOURCES	•		•	•		•	•				
CALPINE	•					•				Options	
CAMPBELL SOUP	•		•	•		•		•	•	Options/Stock	
CAPITAL ONE FINANCIAL	•					•				Options	
CARDINAL HEALTH	•		•			•			•		
CARNIVAL	•		•			•					
CATERPILLAR	•				•	•	•		•	Stock	
CENDANT	•					•		•	•		
CHEVRON	•			•			•		•		
CHIRON	•					•					
CHUBB	•		•	•		•			•		
CIGNA	•		•		•		•	•	•	Stock	
CISCO SYSTEMS	•					•					
CITIGROUP	•		•			•		•	•	Options	
CLEAR CHANNEL COMMUNICATIONS	•					•					
CLOROX	•			•		•	•		•	Stock	
COCA-COLA	•		•	•	•		•		•		
COCA-COLA ENTERPRISES	•		•		•	•	•		•		
COLGATE-PALMOLIVE	•		•	•		•		•	•	Stock	
COMCAST	•	•	•			•					
COMERICA	•		•		•	•	•		•		



**Summary of Executive and Director Grant Type Usage by Company**

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
COMPAQ COMPUTER	•		•	•			•				Options
COMPUTER ASSOCIATES INTERNATIONAL	•			•			•	•			
COMPUTER SCIENCES	•							•			
COMVERSE TECHNOLOGY	•						•				
CONAGRA FOODS	•			•			•		•		
CONOCO	•		•					•		•	
CORNING	•		•				•	•		•	
COSTCO WHOLESALE	•						•				
CVS	•		•	•					•	•	Stock
DANAHER	•						•				
DEERE	•		•	•				•		•	
DELL COMPUTER	•						•	•			Options
DISNEY (WALT)	•						•			•	Stock
DOMINION RESOURCES	•		•	•	•			•	•	•	
DOW CHEMICAL	•			•			•	•		•	
DUKE ENERGY	•		•	•		PARSAP	•	•		•	Stock
DUPONT	•		•						•	•	
DYNEGY	•						•		•		Stock
EASTMAN KODAK	•		•	•			•	•	•	•	
EL PASO ENERGY	•		•	•	•		•	•		•	
ELECTRONIC DATA SYSTEMS	•					PARSAP	•	•		•	Options
EMC	•						•				
EMERSON ELECTRIC	•		•	•				•		•	
ENRON	•		•	•	•	PARSAP		•		•	Options
ENTERGY	•		•	•				•	•		
EXELON	•		•	•				•		•	Stock
EXXONMOBIL	•		•		•			•		•	
FANNIE MAE	•		•	•			•	•			
FEDERATED DEPARTMENT STORES	•		•		•		•	•		•	
FEDEX	•		•		•		•				
FIFTH THIRD BANCORP	•						•			•	
FIRST DATA	•				•		•				Options

Summary of Executive and Director Grant Type Usage by Company

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
FIRST UNION	•		•		•					•	
FLEETBOSTON FINANCIAL	•		•	•			•			•	
FORD MOTOR	•	•	•	•			•			•	
FOREST LABORATORIES	•					•					
FPL GROUP	•		•	•			•				
FRANKLIN RESOURCES	•		•							•	
FREDDIE MAC	•		•			•	•			•	Stock
GANNETT	•		•			•				•	
GAP	•				•	•					Options
GENERAL DYNAMICS	•			•		•	•				Stock
GENERAL ELECTRIC	•		•		•	•	•	•		•	
GENERAL MILLS	•		•			•	•			•	Stock
GENERAL MOTORS	•			•		•	•			•	
GILLETTE	•					•	•			•	
GLOBAL CROSSING	•		•			•					
GOLDEN WEST FINANCIAL	•										
GUIDANT	•		•			•	•				
HALLIBURTON	•		•			•	•			•	
HARLEY-DAVIDSON	•					•					Stock
HARTFORD FINANCIAL SERVICES GROUP	•		•	•		PARSAP	•	•			
HCA	•		•			•	•			•	
HEINZ (H.J.)	•							•			
HERSHEY FOODS	•			•				•	•	•	Stock
HEWLETT-PACKARD	•		•	•		•		•			
HOME DEPOT	•					•	•			•	
HONEYWELL INTERNATIONAL	•		•			•	•			•	
HOUSEHOLD INTERNATIONAL	•		•			•				•	Options/Stock
ILLINOIS TOOL WORKS	•						•			•	Stock
INTEL	•					•				•	
IBM	•		•	•		•	•			•	
INTERNATIONAL PAPER	•		•	•		Tandem	•			•	
INTERPUBLIC GROUP	•		•		•	•	•	•			

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Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
INTUIT	•					•					
J.P. MORGAN CHASE	•		•	•				•	•		
JDS UNIPHASE	•					•					
JOHNSON & JOHNSON	•				Formula-Value	•	•	•	•		
KELLOGG	•		•			•	•			•	
KEYCORP	•				•	•				•	
KIMBERLY-CLARK	•		•			•	•			•	Options
KOHL'S	•					•					
KROGER	•		•	•		•					
LEHMAN BROTHERS HOLDINGS	•		•	•			•				Options
LILLY (ELI)	•		•	•		•	•			•	
LINCOLN NATIONAL	•			•		•	•			•	
LINEAR TECHNOLOGY	•					•					
LOCKHEED MARTIN	•		•		•	•	•			•	
LOEWS	•				•						Options
LOWE'S	•					•				•	
LUCENT TECHNOLOGIES	•		•			•				•	Options/Stock
MARRIOTT INTERNATIONAL	•		•	•				•	•		
MARSH & MCLENNAN	•		•					•	•		Stock
MASCO	•		•		•	PARSAP	•	•			
MAXIM INTEGRATED PRODUCTS	•					•					
MAY DEPARTMENT STORES	•		•		•		•			•	
MBNA	•		•			•					
MCDONALD'S	•				•	•	•			•	
MCGRAW-HILL	•			•			•			•	
MCKESSON HBOC	•		•		•	•	•			•	Options
MEDIMMUNE	•					•					
MEDTRONIC	•		•	•		•	•				Options
MELLON FINANCIAL	•		•		•	PARSAP	•				
MERCK	•					•	•			•	
MERRILL LYNCH	•		•			•	•			•	
METLIFE	•				•	•		•	•		Stock

**Summary of Executive and Director Grant Type Usage by Company**

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
MICRON TECHNOLOGY	●					●			●	Stock	
MICROSOFT	●					●					
MINNESOTA MINING & MANUFACTURING	●				●			●	●	Stock	
MORGAN STANLEY	●		●					●	●	Options/Stock	
MOTOROLA	●		●		●	PARSAP	●	●	●	Stock	
NABORS INDUSTRIES	●					●					
NATIONAL CITY	●		●		●			●			
NETWORK APPLIANCE	●					●					
NEXTEL COMMUNICATIONS	●		●			●					
NIKE	●				●	●					
NORTEL NETWORKS	●			●		●					
NORTHERN TRUST	●		●				●	●	●		
OCCIDENTAL PETROLEUM	●		●	●				●			
OMNICOM GROUP	●		●	●				●		Stock	
ORACLE	●					●					
PALM	●					●					
PAYCHEX	●										
PEOPLESOFT	●					●					
PEPSICO	●				●	●			●	Options/Stock	
PFIZER	●		●	●			●		●		
PHARMACIA	●			●		●		●	●		
PHILIP MORRIS	●	●	●		●	●		●	●		
PHILLIPS PETROLEUM	●			●	●			●	●	Rest. Stock/Stock	
PITNEY BOWES	●				●			●		Options	
PNC FINANCIAL SERVICES GROUP	●		●	●		●		●	●		
PPG INDUSTRIES	●			●		●		●	●		
PROCTER & GAMBLE	●				●	●		●		Stock	
PROGRESS ENERGY	●		●	●			●	●	●		
PROVIDIAN FINANCIAL	●		●			●			●	Stock	
PUBLIC SERVICE ENTERPRISE GROUP	●						●	●			
QUAKER OATS	●		●			●	●		●	Options	
QUALCOMM	●					●					

**Summary of Executive and Director Grant Type Usage by Company**

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
QWEST COMMUNICATIONS INTERNATIONAL	•				•	•			•	Stock	
RALSTON PURINA	•		•		•	•			•		
RAYTHEON	•		•				•				
RELIANT ENERGY	•		•	•				•			
ROCKWELL INTERNATIONAL	•		•			•	•	•		Rest. Stock	
SAFEWAY	•					•			•		
SANMINA	•					•					
SARA LEE	•		•	•		•			•	Options/Stock	
SBC COMMUNICATIONS	•			•			•		•	Stock	
SCHERING-PLOUGH	•		•	•			•	•	•		
SCHLUMBERGER	•										
SCHWAB (CHARLES)	•		•			•			•	Options	
SEARS, ROEBUCK	•		•	•	•	•	•				
SIEBEL SYSTEMS	•					•					
SOLETRON	•					•					
SOUTHERN COMPANY	•		•	•	•		•		•		
SOUTHWEST AIRLINES	•					•					
SPRINT FON/PCS	•					•			•	Stock	
ST. PAUL COMPANIES	•		•	•		•	•		•		
STARBUCKS	•					•					
STATE STREET	•		•	•			•			Stock	
STRYKER	•					•					
SUN MICROSYSTEMS	•		•			•					
SUNTRUST BANKS	•				•	•			•		
SYSCO	•		•			•		•		Stock	
TARGET	•					•	•			Stock	
TELLABS	•					•			•		
TENET HEALTHCARE	•					•					
TEXACO	•			•			•	•	•	Stock	
TEXAS INSTRUMENTS	•		•	•		•	•		•		
TJX	•			•	•	•	•				
TRANSOCEAN SEDCO FOREX	•		•			•			•		

**Summary of Executive and Director Grant Type Usage by Company**

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS				
	Appreciation		Full-Value			Other	Mandatory			Elective	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants
TRIBUNE	•					•		•	•		
TXU			•	•					•		
TYCO INTERNATIONAL	•			•		•			•	Options	
U.S. BANCORP	•		•			PARSAP	•			Stock	
UNION PACIFIC	•		•	•	•	•	•		•		
UNITED TECHNOLOGIES	•		•			•	•		•	Options	
UNITEDHEALTH GROUP	•				•	•					
UNOCAL	•		•	•	•	•	•			Rest. Stock	
USA EDUCATION	•		•	•		•					
USX-MARATHON GROUP	•	•		•			•		•		
VERITAS SOFTWARE	•					•					
VERIZON COMMUNICATIONS	•			•		•	•		•		
VIACOM	•					•			•		
WACHOVIA	•		•				•		•		
WALGREEN	•			•				•	•		
WAL-MART STORES	•		•			•	•	•			
WASHINGTON MUTUAL	•			•		•					
WASTE MANAGEMENT	•					•			•		
WELLS FARGO	•		•			•		•	•		
WEYERHAEUSER	•						•		•		
WILLIAMS COMPANIES	•		•			•		•	•	Stock	
WORLDCOM	•					•				Stock	
WRIGLEY (WM.) JR.	•		•	•			•		•		
XCEL ENERGY	•			•	•		•		•		
XILINX	•					•					
YAHOO	•					•					

## Classification of Grant Types

### Grant Type Classifications

For the purpose 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*

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

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

## Definition of Grant Types

### Appreciation Grants

**Stock Options** are rights to purchase shares of company stock at a specified price over a stated period, usually ten or fewer years. Typically, the option price is 100 percent 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 become exercisable later in their option term, regardless of attaining the performance goals, and receive favorable “fixed” accounting treatment.
- *Performance-Vesting Stock Options* are considered to have “vesting with teeth,” because the options are forfeited if a predetermined performance criteria are not met prior to or by the end of the option term. These grants are typically larger than normal grants as there is more risk tied to the award. They do not receive favorable accounting treatment and, therefore, 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. These options also do not receive favorable accounting treatment.

**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 grant-

ed 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.

### Full-Value Grants

**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.

**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, the same as performance units except that the value paid fluctuates with stock price changes as well as performance against objectives. The payout may be settled in cash or stock.

### 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 of the value of the grant at exercise over the initial grant value, like a SAR, or the full value of a formula-derived “share,” resembling restricted stock.



# COMPANY PROFILE

## **Frederic W. Cook & Co., Inc.**

provides management compensation consulting services to business clients. Formed in 1973, our firm has served over 1,200 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 which 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:

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

## **Our office locations:**

### **New York**

90 Park Avenue  
35th Floor  
New York, New York 10016

212-986-6330 phone  
212-986-3836 fax

### **Chicago**

19 South LaSalle Street  
Suite 400  
Chicago, Illinois 60603

312-332-0910 phone  
312-332-0647 fax

### **Los Angeles**

2029 Century Park East  
Suite 1130  
Los Angeles, California 90067

310-277-5070 phone  
310-277-5068 fax

## **Web site address:**

[www.fwcook.com](http://www.fwcook.com)

*This report was prepared by David Cole in our New York office, with research assistance from Erin Bass-Goldberg, Michael Chavira, Kristin Ciccari, Scott Evenson, James Kim, Richard Kimball, Malia Mixon, Michael Reznick, Joanne Reiersen, Louis Taormina, Michael Thompson, and David Yang. Questions and/or comments should be directed to Mr. Cole.*

