

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

THE 2000 TOP 250

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

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

250

THE 2000 TOP 250

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

## 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 having one or more class of common stock included in the Standard & Poor's 500 Index. Selection of these companies was 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 2000 report, our 28th edition, is based on the 250 largest companies as reported in the March 27, 2000, issue of *Business Week* magazine ("The Top Companies of the S&P500").

The following topics are covered in this report:

### Executives:

- Long-term incentive grants
- Stock option features
- Payment of annual incentives in stock
- Ownership guidelines

### Directors:

- Stock-based grants
- Payment of retainer and/or fees in stock
- Ownership guidelines

## 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 are made to the companies. Definitions for each grant type appear in the *Appendix*. The 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 grant usage.

## Executive Long-Term Incentive Grants

The information presented throughout this report focuses on the *actual* usage of long-term incentive awards, 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 previous three years, and there is no evidence that its usage has been discontinued. While most data reflect usage through fiscal year 1999, 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 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 or replacement of lost benefits upon hiring or other unique situations is typically excluded. There are instances,

however, where a specific grant type is reported as being used, even though the only grant recipients appear to be the chief executive officer (CEO) and/or other top executives and the purpose of the grant was 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. would not be considered to grant SARs as a long-term incentive.

## Non-Employee Director Stock-Based Grants

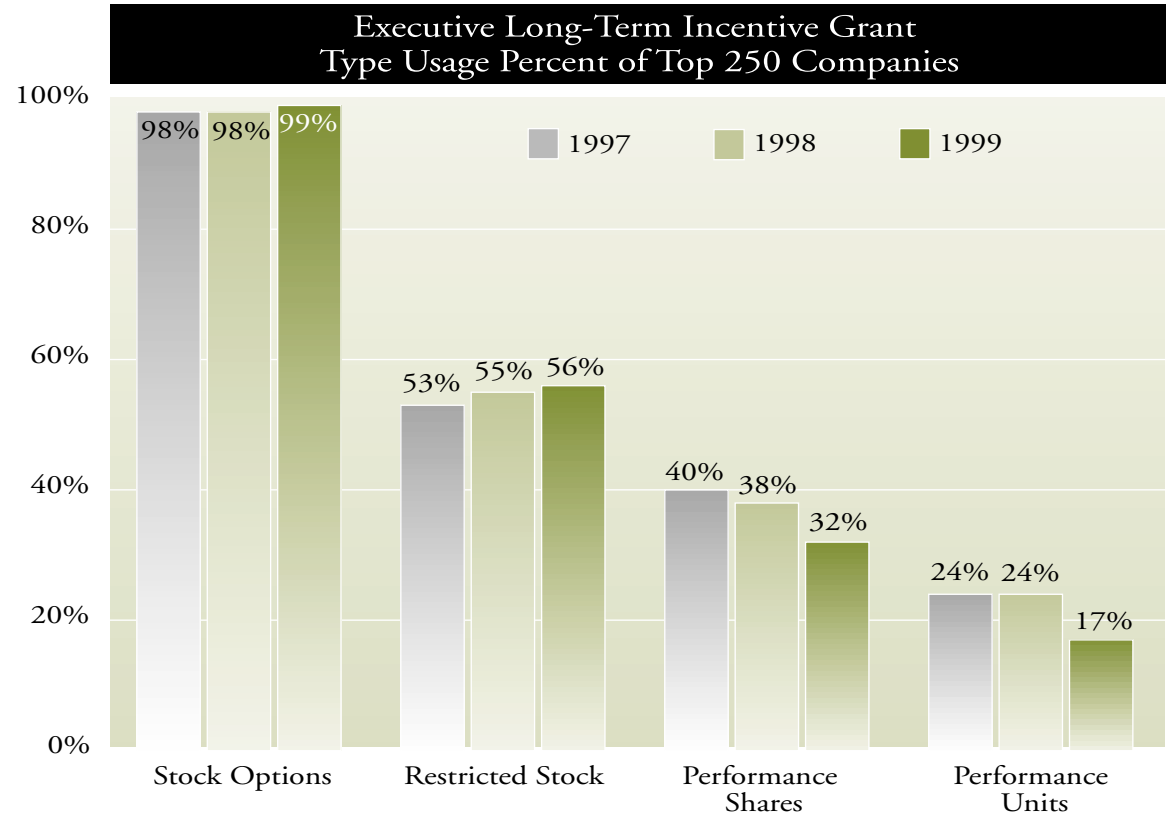
With respect to non-employee directors, a stock-based grant type is considered to be in use at a particular company if the most recent disclosure indicates either that the particular grant type is being used, or that it could be granted in lieu of any cash retainer, regardless of whether such election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

## 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 one of the companies grant stock options. Usage of different variations of the “plain vanilla” stock option is 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. The use of restricted stock is relatively level when compared with results from the previous two years of this survey. Currently, fifty-six percent of the Top 250 companies use this grant type.

**Performance Awards** consist of stock-denominated performance “shares” and cash-denominated performance “units,” which are earned over a multi-year performance period. Currently, forty-six percent of the Top 250 companies use either one or both of these grant types (3% grant both types), with more companies using performance shares than performance units. This is a significant decline from



last year’s survey in which fifty-eight percent of the Top 250 companies used either one or both of these grant types. The decline is due to the displacement in this year’s survey population of “old economy” companies with “new economy” technology companies that typically use only stock options as a long-term incentive vehicle.

## Summary of Executive Long-Term Incentive Grants

		Percent of Companies Using Grant Type		
		1999	1998	1997
<b>Overall:</b> (See Appendix for definition)	<i>Any Type of Grant</i>	100%	100%	100%
	<i>Appreciation Grants</i>	99	98	98
	<i>Full-Value Grants</i>	72	77	78
	<i>Other Grants</i>	17	21	24
<b>By Grant Type:</b>	<i>Stock Options</i>	99%	98%	98%
	• Performance	18	20	19
	• Restoration (Reload)	18	19	19
	• Premium	9	10	8
	• Discount	2	1	1
	• Dividend Rights	2	4	4
	• Indexed	<1	0	<1
	<i>Restricted Stock</i>	56%	55%	53%
	• PARSAPs	4	2	3
	<i>Performance Shares</i>	32%	38%	40%
	• Dividend Rights	15	15	16
	<i>Performance Units</i>	17%	24%	24%
	<i>SARs</i>	3%	4%	5%
	• Tandem	2	1	3
	• Freestanding	1	3	2
	• Additive	0	0	0
	<i>Tandem Grants</i>	1%	2%	2%
	<i>Formula-Value Grants</i>	<1%	1%	1%

## Executive Stock Option Variations

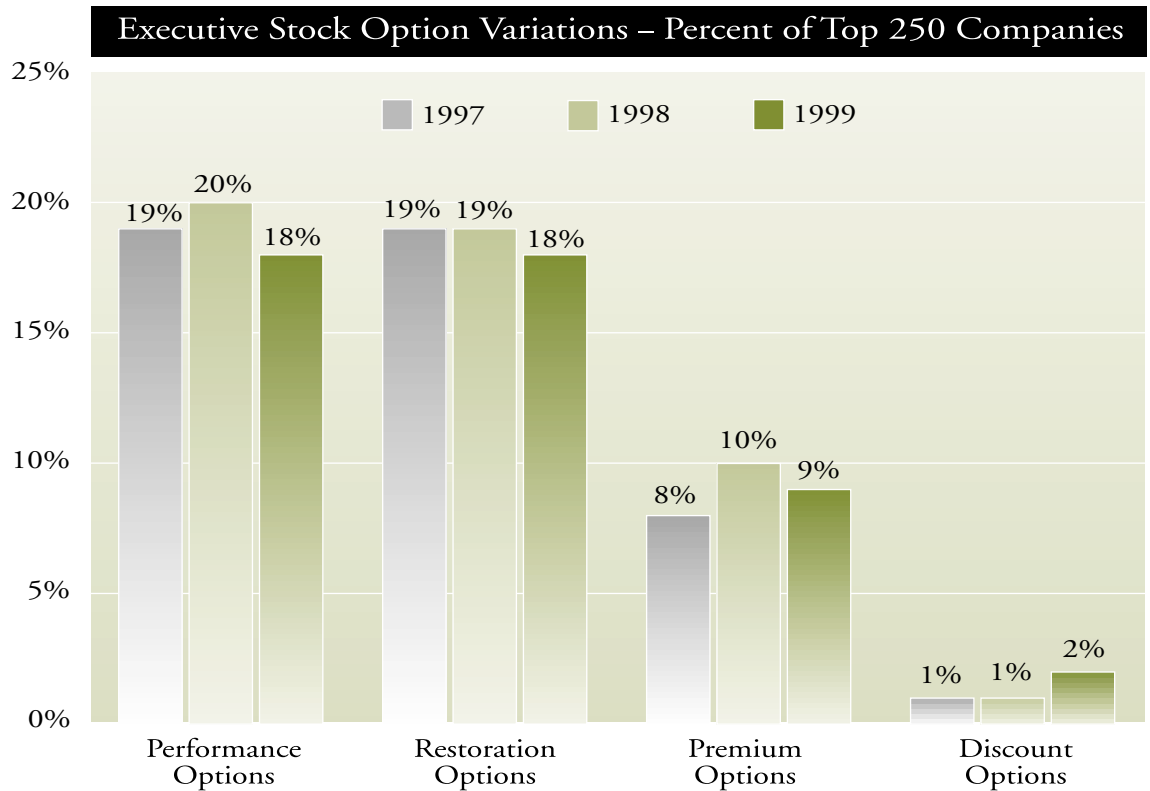
**Overview** – Thirty-seven percent of companies with stock options have incorporated one or more design variations into their stock option grants. The following are the principal option grant design variations in use at the Top 250 companies:

**Performance Stock Options** are stock options that have some aspect of their vesting tied to specified performance criteria. Eighteen percent of Top 250 companies use performance options. Of these, seventy-six 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.

**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.<sup>(1)</sup> They are designed to encourage management stock

ownership. (In fact, forty-six percent of the Top 250 companies with restoration option programs have publicly disclosed formal stock ownership guidelines.) Eighteen percent of Top 250 companies use restoration options.

**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).



<sup>(1)</sup> A method of stock option exercise in which an executive is allowed to deliver already owned stock, instead of paying cash, to exercise a stock option.

## Executive Stock Option Variations – Top 250 Companies Using

<b>Performance Stock Options:</b>	<b><i>Performance Vesting -</i></b>			
	Alltel	Colgate-Palmolive	Hartford Financial Services	PECO Energy
	Bank of America	Conoco	Honeywell International	Sysco
	Capital One Financial	Dow Chemical	Masco	Time Warner
	Citigroup			
<b>Restoration Stock Options:</b>	<b><i>Performance Accelerated Vesting -</i></b>			
	Adobe Systems	Chevron	Kroger	Seagate Technology
	Alcan Aluminum	Clorox	Lehman Brothers Holdings	Sears, Roebuck
	American Express	Deere	Lexmark Intl. Group	Sprint
	Amgen	DuPont	Mellon Financial	U.S. Bancorp
	Avery Dennison	Enron	Micron Technology	Union Pacific
	Baker Hughes	First Data	PE Corporation	United Technologies
	Baxter International	Franklin Resources	Ralston Purina	Waste Management
	Bristol-Myers Squibb	Hartford Financial Services	Rockwell International	Williams Cos.
	Capital One Financial	Heinz (H.J.)	Sara Lee	
	Abbott Laboratories	CBS	International Paper	PPG Industries
	Alcan Aluminum	Chubb	Kellogg	Ralston Purina
	Alcoa	Cigna	Masco	Sara Lee
	Allstate	Citigroup	McGraw-Hill	Sears, Roebuck
	American Express	Colgate-Palmolive	Mellon Financial	Sprint
American General	Compuware	Minnesota Mining & Mfg.	Texaco	
Amgen	Corning	Morgan Stanley Dean Witter	Tribune	
AT&T	DuPont	National City	Tyco Intl.	
Bank One	First Union	Nortel Networks	U.S. Bancorp	
Bell Atlantic	FleetBoston Financial	Philip Morris	Wells Fargo	
Burlington Northern Santa Fe	General Mills	Pharmacia		
Capital One Financial	Honeywell International	PNC Bank		
<b>Premium Stock Options:</b>	ADC Telecommunications	Clorox	DuPont	PNC Bank
	America Online	Coca-Cola Enterprises	Federated Department Stores	Seagate Technology
	Bank of America	Colgate-Palmolive	First Data	Sears, Roebuck
	Baxter International	Comcast	Gap	Time Warner
	CBS	Deere	Global Crossing	
	Citrix Systems	Disney (Walt)	KeyCorp	
<b>Discount Stock Options:</b>	Dell Computer	Gap	Hewlett-Packard	Network Appliance
	EMC	Global Crossing		



## 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. Currently, three percent of the Top 250 companies use this type of grant. Usage of SARs continues to decrease when compared with the results from the previous two years of this survey (4% and 5% for 1998 and 1997, respectively.) 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. There are no 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.

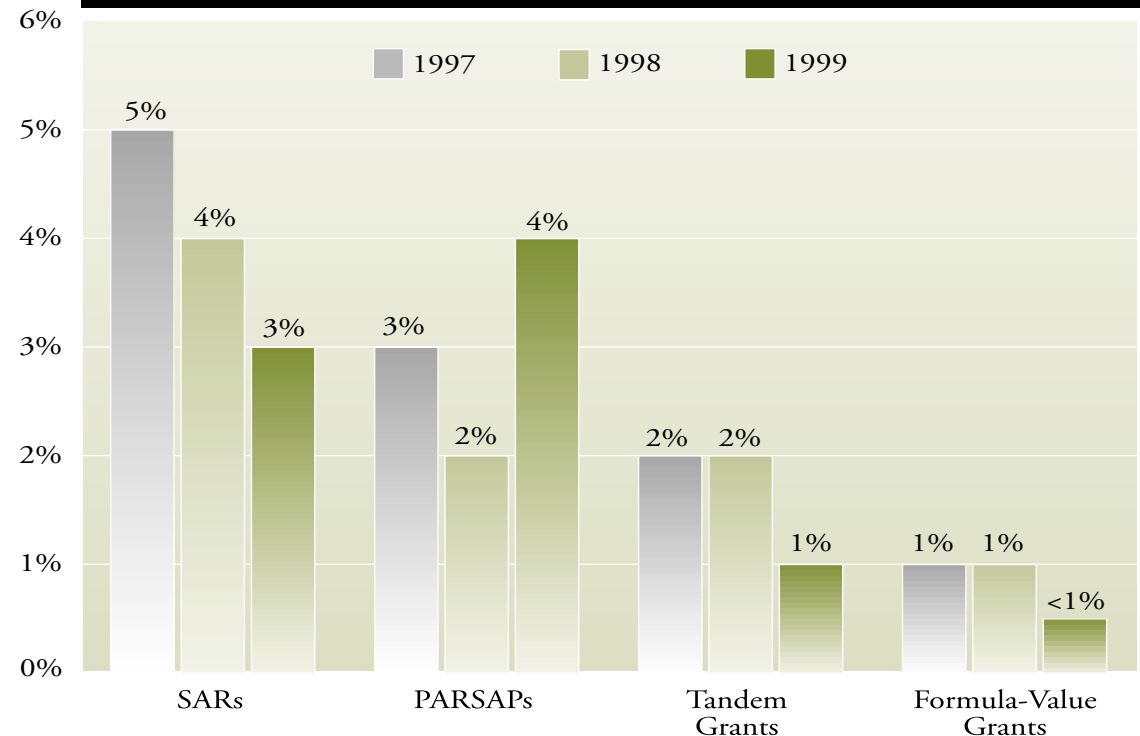
Currently, four percent of the Top 250 companies grant PARSAPs, an increase in usage when compared with a prevalence of two percent in 1998.

**Formula-Value Grants** have a value based on a formula rather than the market value of company stock, e.g., Johnson & Johnson uses a formula based on net asset value and a capitalized value of earnings averaged over five years. Formula-value

grants can be in the form of an “appreciation right” or a “full value” grant. Only one company (less than 1% of the Top 250 companies) makes formula-value grants.

**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 one percent of the Top 250 companies make tandem grants.

Other Executive Grant Type Variations – Percent of Top 250 Companies



## Executive Grant Type Variations – Top 250 Companies Using

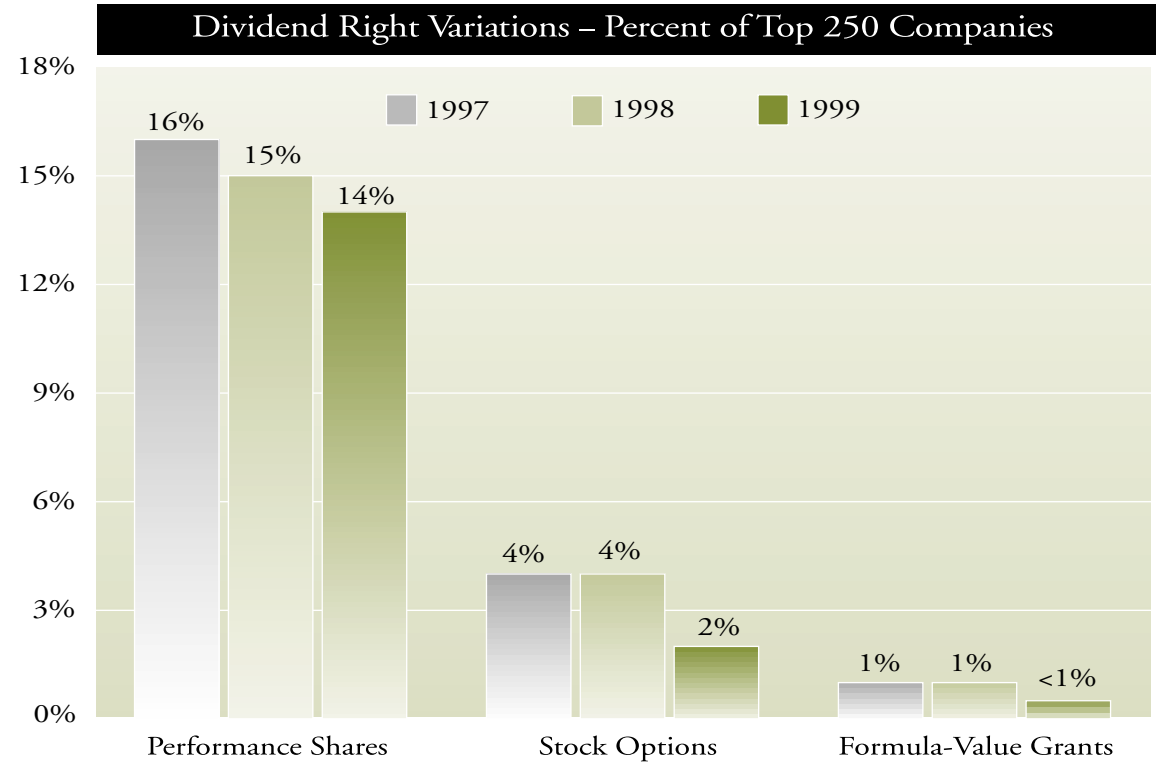
<b>SARs:</b>			
• Tandem	American Express Becton, Dickinson	Comcast Ford Motor	Philip Morris USX
• Freestanding	Adobe Systems	Wachovia	
<b>PARSAPs:</b>			
	Circuit City Duke Energy Electronic Data Systems	FleetBoston Financial Lowe's Lucent Technologies	Masco Mellon Financial Staples
<b>Tandem Grants:</b>			
• Stock Options/ Performance Units	Bestfoods	Ford Motor	
• Stock Options/ Restricted Stock	International Paper		
<b>Formula Value Grants:</b>	Johnson & Johnson		

## Dividend Right Variations

**Overview** - Dividend rights enable the recipient to receive an amount equal to the dividends paid on a specified number of shares of company stock. These may be “real” dividends when actual shares are issued, or dividend “equivalents” when share “units” or stock options are involved. As summarized below, dividend rights are almost always attached to another long-term incentive grant type.<sup>(1)</sup> As shown on page 5 of this report, overall usage is decreasing, from four percent in 1998 to two percent in 1999. “Stand-alone” dividend equivalent rights are not currently used by any of the companies in the Top 250.

**Performance Shares with Dividend Rights** are awarded by forty-six percent of the companies granting performance shares (14% of the Top 250 companies.)

**Stock Options with Dividend Equivalent Rights** are awarded by only five of the 249 companies granting stock options (2%). Their use continues to be concentrated in high-dividend-yield companies to capture total shareholder return.



**Formula Value Grants with Dividend Equivalent Rights** are used by the one Top 250 company (Johnson & Johnson) that uses formula value grants.

<sup>(1)</sup> For purposes of this report, dividend rights are assumed to be granted with restricted stock and, therefore, are not tracked separately.

## Executive Dividend Right Variations – Top 250 Companies Using

<b>Performance Shares with Dividend Rights:</b>	Adobe Systems	ConAgra	Lowe's	Texas Instruments
	American General	Deere	Marriott Intl.	Texas Utilities
	Bank of New York	Dow Chemical	McGraw-Hill	Tyco International
	Bank One	Duke Energy	Mellon Financial	Union Carbide
	Bestfoods	Eastman Kodak	PE Corporation	USX
	Boeing	Enron	PG&E	Wrigley, (Wm.) Jr.
	Campbell Soup	Ford Motor	PPG Industries	Xerox
	Chase Manhattan	GTE	Sara Lee	
	Chubb	Hewlett-Packard	Sears, Roebuck	
	Colgate-Palmolive	International Paper	Texaco	
<b>Stock Options with Dividend Rights:</b>	Alcoa	Edison International <sup>(1)</sup>	Southern Company	United Technologies
	Atlantic Richfield			
<b>Formula Value Grants with Dividend Rights:</b>	Johnson & Johnson			

<sup>(1)</sup> With additional performance criteria

## Executive Annual Incentives Paid In Stock Awards

**Annual incentives paid in stock or stock options** continue to increase in prevalence as companies seek to further align executive pay with increases in shareholder value. Of the Top 250 companies, thirty percent (28% was reported in last year's survey) have disclosed provisions for payment of annual incentives in some form of equity-based vehicle. Following are the typical provisions found:

- *Mandatory payments* in stock typically represent a specified percent of the award payout, as determined by the company's compensation committee. Thirty-nine companies (16%) disclosed that they pay at least a portion of annual incentives in shares of stock or stock options, and twenty-one percent of those companies provide for elective payments in stock for the balance of the award.
- *Elective payments* typically allow the executive to choose payment in stock of up to 100% of the annual incentive amount. Forty-three companies (17%) disclosed that they allow executives to receive at least a portion of annual incentives in shares of stock or stock options.
  - *Inducements* are offered by fifty-five percent of the companies using stock for payment of annual bonuses to promote elective payments in stock or options. For example, General Mills offers a premium, in which the company matches one restricted share for every four restricted shares elected in lieu of cash payment of bonus. Some companies, such as Dell Computer, achieve the same objective by offering discounts from the stock market value to encourage elective payments in stock.
- *Payment in stock options* is less common than payment in stock or stock units, with twelve companies (5%) allowing elective payment in options, and two (1%) with mandatory payment in options.
- *Percent of bonus* paid in stock typically falls in the range of twenty percent to thirty percent of bonus for mandatory plans.

## Executive Annual Incentive Variations – Top 250 Companies

### Payment in Stock or Stock Units

#### • Mandatory

American Home Products	DuPont	Lehman Brothers Holdings	Procter & Gamble
Boeing	El Paso Energy	Marriott International	Providian Financial
Carnival	Electronic Data Systems	Mellon Financial	Rohm & Haas
CBS	Franklin Resources	Merrill Lynch	Texas Utilities
Chase Manhattan	FleetBoston Financial	Minnesota Mining & Mfg.	Textron
Cigna	Gannett	Molex	Tyco International
Citigroup	GTE	Morgan (J.P.)	Unicom
Computer Associates	Halliburton	Morgan Stanley Dean Witter	Williams Cos.
Conexant Systems	Johnson & Johnson	National City	
Conoco	KeyCorp	PPG Industries	

#### • Elective

Alcan Aluminum	Columbia/HCA Healthcare	MBNA	Sears, Roebuck
Alcoa	Computer Sciences	Mellon Financial	Sysco
American Home Products	CVS	Qualcomm	Textron
Associates First Capital	Dell Computer	Quaker Oats	Unicom
Best Buy	DuPont	RadioShack	Union Carbide
Boeing	General Mills	Ralston Purina	Union Pacific
Burlington Northern Santa Fe	GTE	Safeway	Weyerhaeuser
Chevron	Hartford Financial Services	SBC Communications	Williams Cos.
Clorox	Marsh & McLennan	Seagram	Wrigley (Wm.) Jr.

### Payment in Stock Options

#### • Mandatory

AES	Procter & Gamble		
-----	------------------	--	--

#### • Elective

ADC Telecommunications	CVS	Kellogg	PG&E
Capital One Financial	Dell Computer	Medtronic	SBC Communications
Computer Sciences	Franklin Resources	Network Appliance	Sprint

## Executive Stock Ownership Guidelines

**Overview** – Thirty-three percent of the Top 250 companies have formal stock ownership guidelines that require executives to own a certain amount of company stock. (We believe, however, that the percent of Top 250 companies with ownership guidelines is higher than thirty-three percent because disclosure of guidelines is voluntary.) Guidelines are typically stated as a multiple of salary or as a specific number of shares. The following describes the prevalence of the types of ownership guidelines at Top 250 companies<sup>(1)</sup>:

- *Multiple of salary* guidelines are the most common approach, with seventy-six percent of the companies with ownership guidelines adopting this approach. Only two percent of companies with ownership guidelines state their requirements as a multiple of annual compensation, e.g., salary plus target bonus.
- *Number of share* guidelines are used by eight percent of the Top 250 companies with formal ownership guidelines.
- *Retention ratio* guidelines that require executives to retain a certain percentage of option profit shares or earned shares from long-term incentive plans are used by five percent of the Top 250 companies with formal ownership guidelines.

<sup>(1)</sup> Eight percent of companies did not disclose the type of ownership guidelines

## Executive Stock Ownership Guidelines – Top 250 Companies

### Multiple of Salary

ADC Telecommunications	Clorox	Hartford Financial Services	PG&E
Allstate	Coca-Cola	Household International	Pitney Bowes
American Express	Coca-Cola Enterprises	Illinois Tool Works	Procter & Gamble
American General	Comcast	Kellogg	Rockwell International
American Home Products	Conoco	KeyCorp	Rohm & Haas
Associates First Capital	Deere	Kimberly-Clark	Scientific-Atlanta
AT&T	Dominion Resources	Lockheed Martin	Sears, Roebuck
Baker Hughes	Dow Chemical	Marriott International	Textron
Bank One	DuPont	Masco	Transocean Sedco Forex
Becton, Dickinson	Eastman Kodak	May Department Stores	Tribune
BellSouth	Electronic Data Systems	McDonald's	Union Carbide
Bestfoods	Enron	Motorola	Union Pacific
Boeing	Ford Motor	Nortel Networks	Unisys
Burlington Northern Santa Fe	Gannett	PE Corporation	Weyerhaeuser
Campbell Soup	General Motors	PECO Energy	Xerox
Cigna	GTE	Pfizer	

### Multiple of Annual Compensation

Hewlett-Packard	IBM
-----------------	-----

### Number of Shares

Alcoa	Compaq Computer	National City	Sun Microsystems
Caterpillar	Duke Energy	Sara Lee	

### Retention Ratio

Citigroup	General Mills	Merck	Wells Fargo
-----------	---------------	-------	-------------



## Summary of Director Stock-Based Grants

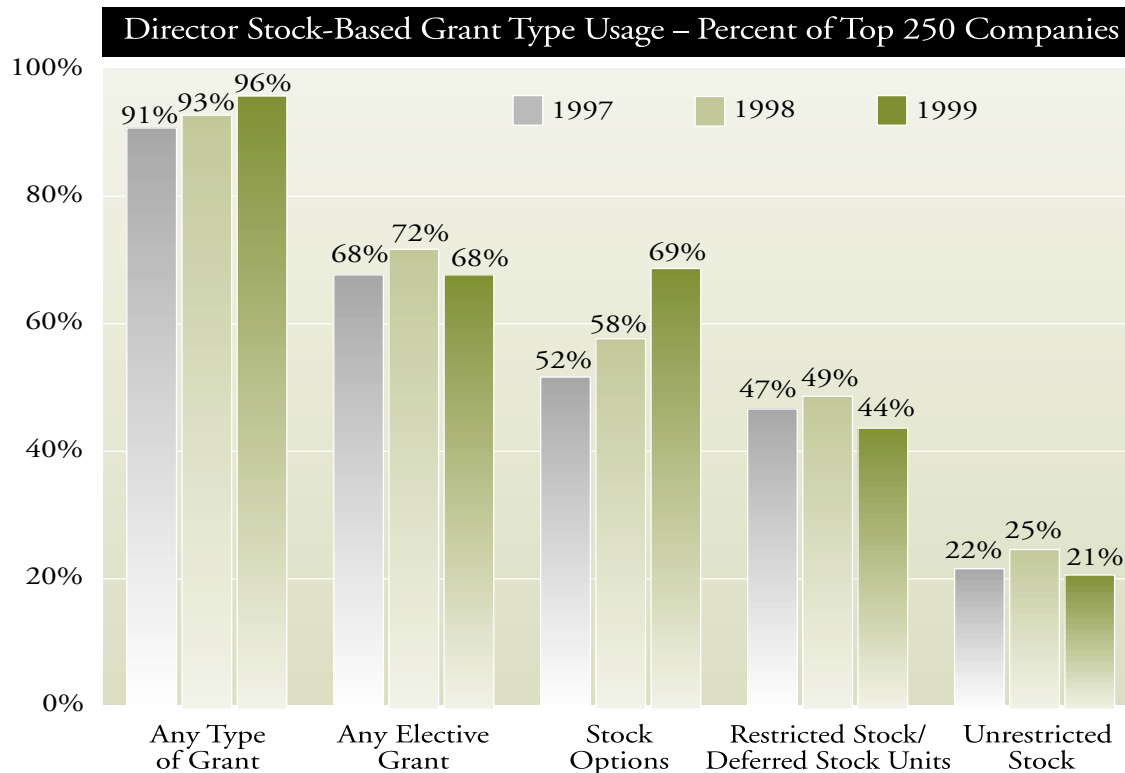
**Overview** – Ninety-six percent of the Top 250 companies compensate non-employee directors using a form of stock-based grants. Director grant usage continues to increase for stock options. Usage of restricted stock or deferred stock units and unrestricted stock is decreasing when compared with last year's survey results. Both of these trends may be attributed to the

inclusion in this year's survey of more "new economy" technology companies that use stock options only for director grants.

**Stock Options** continue to significantly increase in use, with sixty-nine percent of the Top 250 companies making grants. Most stock option grants to non-employee directors are "plain-vanilla" stock options. The

following are some variations to the typical "plain-vanilla" stock option grant:

- *Performance Options* have a company performance goal that must be achieved before directors receive option grants or before the options become exercisable. Only two percent of the Top 250 companies grant performance options to directors. Computer Associates determines the number of options to grant based on the company's attainment of ROE objectives. ADC Telecommunications and Sysco must have ten percent growth in ROE and EPS, respectively, over the prior year for the directors to receive option grants. Capital One Financial granted options that vest based on the achievement of stock price objectives.
- *Restoration Options* are granted to directors at Abbott Laboratories, Allstate, Chubb, Sara Lee, U.S. Bancorp and Wells Fargo.
- *Tandem SARs* are granted with director stock options at BellSouth.



**Restricted Stock/Deferred Stock Unit** grants decreased in use when compared with last year; they 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** grants also decreased in use when compared with last year; they are currently granted by twenty-one percent of the Top 250 companies. These shares are free of any transferability restrictions and are typically granted in lieu of a portion or the entire cash annual retainer.

**Elections to Receive Stock** are offered by sixty-eight 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 induce directors to purchase company stock through discounted stock purchase programs or stock matching programs.

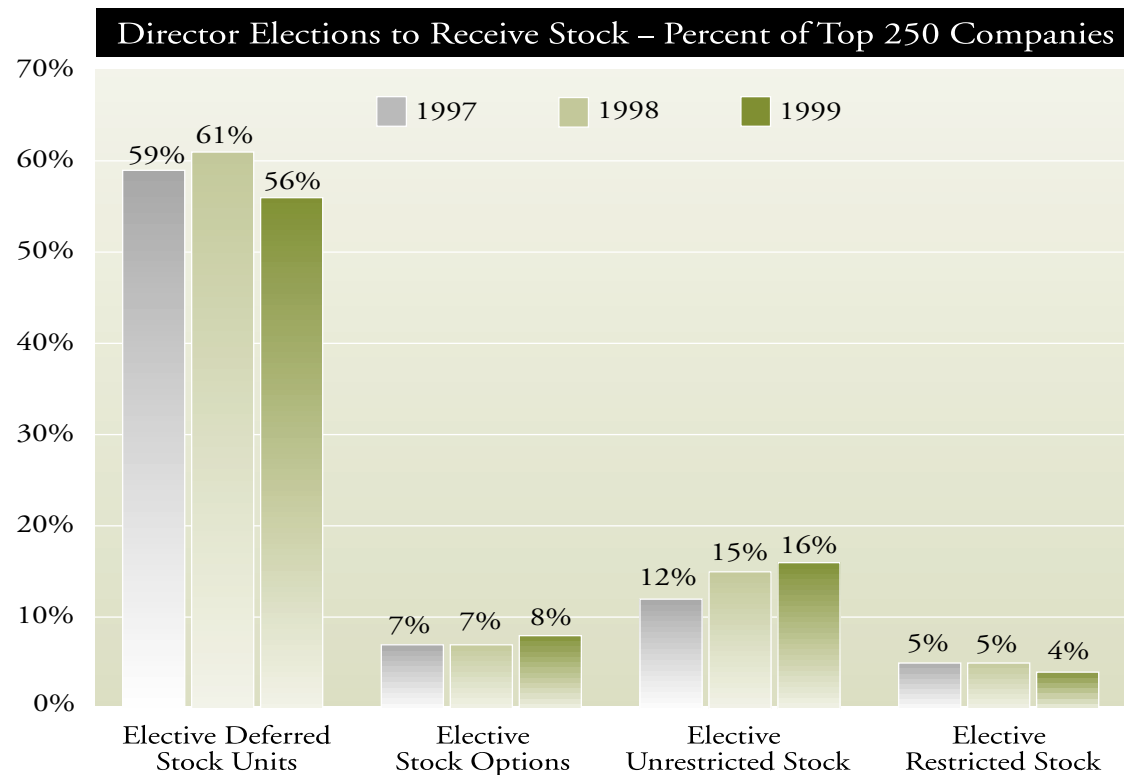
- *Deferred Stock Units* allow cash deferrals into an unfunded account

denominated in company stock. Stock price appreciation and dividends typically accumulate to be paid out upon retirement or another specified date.

- *Stock Options* are also offered in place of cash and occasionally at an exchange ratio of three or four dollars of option face value for each dollar forgone. BellSouth has a

program where directors receive one additional option share for every two shares owned in excess of a specified ownership level, i.e., shares worth five times the annual retainer.

- *Restricted or Unrestricted Stock* is simply the receipt of common shares in place of cash.



## Director Stock Ownership Guidelines

**Overview** – Thirteen percent of the Top 250 companies have stock ownership guidelines that require directors to own a certain amount of company stock. The following describes the prevalence of the types of ownership guidelines at Top 250 companies:

- *Multiple of retainer* is the most common type of ownership guideline in place for directors. Fifty percent of companies with director ownership guidelines state the requirement as a multiple of annual retainer. Only two companies (6%), Comcast and Ford Motor, with director ownership guidelines state the requirement as a multiple of annual retainer plus meeting fees.
- *Number of shares* ownership guidelines are used by twenty-eight percent of the Top 250 companies with director ownership guidelines.
- *Other types* of director ownership guidelines include a retention ratio approach or specific dollar value requirements and are used by sixteen percent of companies with director ownership guidelines. For example, Citigroup directors are required to hold 75% of shares previously granted, the same as for executive officers.

## Director Stock Ownership Guidelines – Top 250 Companies

### Multiple of Annual Retainer

AT&T	General Mills	Kellogg	Tribune
Becton, Dickinson	Hewlett-Packard	May Department Stores	U.S. Bancorp
BellSouth	Honeywell International	McDonald's	Unisys
Chubb	Illinois Tool Works	Scientific-Atlanta	Wells Fargo

### Multiple of Annual Retainer and Meeting Fees

Ford Motor	Comcast
------------	---------

### Number of Shares

Campbell Soup	Duke Energy	National City	PECO Energy
Compaq Computer	Kroger	Nortel Networks	Safeway
Dow Chemical			

### Retention Ratio

Citigroup
-----------

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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines		
	Appreciation	Full Value			Other Grants		Automatic			Elective		Executive	Director	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants	Executive	Director
3COM	X		X					X						
ABBOTT LABORATORIES	X		X						X		X	Options	X	
ADC TELECOMMUNICATIONS	X							X					X	
ADOBE SYSTEMS	X	X	X	X		X		X						
AES	X							X			X			
AFLAC	X							X						
ALBERTSON'S	X									X	X	Options		
ALCAN ALUMINIUM	X										X			
ALCOA	X					X					X		X	
ALLSTATE	X		X		X			X	X		X		X	
ALLTEL	X				X			X	X			Rest. Stock		
AMERICA ONLINE	X							X						
AMERICAN EXPRESS	X	X	X	X	X			X		X	X		X	
AMERICAN GENERAL	X		X	X		X		X	X		X		X	
AMERICAN HOME PRODUCTS	X			X				X	X		X		X	
AMERICAN INTL GROUP	X			X				X		X				
AMGEN	X							X						
AMR	X		X	X				X	X		X			
ANALOG DEVICES	X		X					X						
ANHEUSER-BUSCH	X							X			X			
APPLE COMPUTER	X							X						
APPLIED MATERIALS	X							X						
ASSOCIATES FIRST CAPITAL	X		X					X			X		X	
AT&T	X		X	X					X		X		X	X
ATLANTIC RICHFIELD	X			X		X		X	X		X			
AUTOMATIC DATA PROCESSING	X		X					X						
AVERY DENNISON	X				X			X		X	X		X	
BAKER HUGHES	X		X					X			X		X	
BANK OF AMERICA	X		X							X	X			
BANK OF NEW YORK	X		X	X		X				X	X			
BANK ONE	X		X	X		X		X		X	X	Options	X	
BAXTER INTERNATIONAL	X			X					X					

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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS							DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines	
	Appreciation		Full Value			Other Grants		Automatic			Elective		Executive	Director
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants		
BB&T	X			X								Options		
BECTON, DICKINSON	X	X						X				Stock	X	X
BELL ATLANTIC	X						X			X				
BELLSOUTH	X		X		X		X		X	X			X	X
BEST BUY	X						X			X				
BESTFOODS	X		X		X	X	Tandem		X	X			X	
BIOGEN	X						X			X				
BMC SOFTWARE	X		X				X							
BOEING	X		X	X		X	X	X		X			X	
BOSTON SCIENTIFIC	X		X				X			X				
BRISTOL-MYERS SQUIBB	X		X		X		X	X		X			X	X
BURLINGTON NORTHERN SANTE FE	X		X				X	X		X	Rest. Stock		X	
CABLETRON SYSTEMS	X						X							
CAMPBELL SOUP	X		X	X		X	X		X				X	X
CAPITAL ONE FINANCIAL	X						X	X						
CARDINAL HEALTH	X		X				X							
CARNIVAL	X		X				X							
CATERPILLAR	X				X		X	X		X	Stock		X	
CBS	X		X				X	X						
CENDANT	X						X		X	X				
CHASE MANHATTAN	X		X	X		X			X	X				
CHEVRON	X			X				X		X				
CHUBB	X		X	X		X	X			X				X
CIGNA	X		X		X			X		X	Stock		X	
CIRCUIT CITY	X						PARSAP	X						
CISCO SYSTEMS	X							X						
CITIGROUP	X		X						X	X			X	X
CITRIX SYSTEMS	X							X						
CLEAR CHANNEL COMM.	X							X						
CLOROX	X		X	X				X	X		X	Stock	X	
COASTAL	X							X	X		X			X
COCA-COLA	X		X		X			X		X			X	

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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines		
	Appreciation		Full Value			Other Grants	Automatic			Elective				
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants	Executive	Director
COCA-COLA ENTERPRISES	X		X		X			X	X		X		X	
COLGATE-PALMOLIVE	X		X	X		X		X		X	X	Stock		
COLUMBIA/HCA HEALTHCARE	X		X					X	X		X			
COMCAST	X	X						X					X	X
COMPAQ COMPUTER	X		X					X				Options	X	X
COMPUTER ASSOCIATES INTL.	X							X	X					
COMPUTER SCIENCES	X								X					
COMPUWARE	X							X		X				
COMVERSE TECHNOLOGY	X							X						
CONAGRA	X		X	X	X	X		X		X				
CONEXANT SYSTEMS	X		X					X				Rest. Stock		
CONOCO	X		X					X	X		X		X	
CORNING	X		X		X				X		X			
COSTCO	X							X						
CVS	X		X	X						X	X	Stock	X	
DEERE	X		X	X		X			X		X		X	
DELL COMPUTER	X							X	X			Options		
DELPHI AUTOMOTIVE SYSTEMS	X		X		X				X		X			
DISNEY (WALT)	X							X			X	Stock		
DOMINION RESOURCES	X		X	X	X				X	X	X		X	
DOVER	X				X					X				
DOW CHEMICAL	X			X		X		X	X		X		X	X
DUKE ENERGY	X		X	X		X	PARSAP	X	X		X		X	X
DUPONT	X		X					X		X	X		X	
EASTMAN KODAK	X		X	X		X		X		X	X		X	
EDISON INTERNATIONAL	X								X	X				
EL PASO ENERGY	X		X		X			X	X		X			
ELECTRONIC DATA SYSTEMS	X						PARSAP	X	X		X	Options	X	
EMC	X							X						
EMERSON ELECTRIC	X		X	X					X		X			
ENRON	X		X	X	X	X			X		X	Options	X	
EXXON MOBIL	X		X	X					X					

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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS							DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines	
	Appreciation		Full Value			Other Grants		Automatic			Elective		Executive	Director
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants		
FANNIE MAE	X		X	X				X	X					
FEDERATED DEPT STORES	X		X		X			X	X		X			
FEDEX	X		X		X			X						
FIFTH THIRD BANCORP	X							X			X			
FIRST DATA	X				X			X				Options		
FIRST UNION	X		X		X						X			
FIRSTAR	X		X	X				X						
FLEETBOSTON FINANCIAL	X		X	X			PARSAP	X	X	X	X			
FORD MOTOR	X	X	X	X	X	X	Tandem		X		X		X	X
FPL GROUP	X		X	X					X					
FRANKLIN RESOURCES	X		X								X			
FREDDIE MAC	X		X					X	X		X			
GANNETT	X		X								X		X	
GAP	X		X					X				Options		
GATEWAY	X		X					X						
GENERAL DYNAMICS	X			X				X	X			Stock		
GENERAL ELECTRIC	X		X		X			X		X	X			
GENERAL MILLS	X		X					X	X		X	Stock	X	X
GENERAL MOTORS	X			X				X	X		X		X	
GILLETTE	X							X	X		X			
GLOBAL CROSSING	X		X					X						
GTE	X			X		X			X		X		X	
GUIDANT	X		X					X	X					
HALLIBURTON	X		X						X		X			
HARLEY-DAVIDSON	X							X				Stock		
HARTFORD FINANCIAL SERVICES	X		X	X				X	X				X	
HEINZ (H.J.)	X									X				
HEWLETT-PACKARD	X		X	X		X		X		X			X	X
HOME DEPOT	X								X			Rest. Stock		
HONEYWELL INTERNATIONAL	X		X	X				X	X		X			X
HOUSEHOLD INTERNATIONAL	X		X					X			X	Options/Stk.	X	
IBM	X		X	X				X	X		X		X	



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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines		
	Appreciation	Full Value			Other Grants		Automatic			Elective		Executive	Director	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants	Executive	Director
ILLINOIS TOOL WORKS	X							X			Stock	X	X	
INTEL	X						X				X			
INTERNATIONAL PAPER	X		X	X		X	Tandem	X			X			
INTERPUBLIC GROUP	X		X	X				X	X	X				
JOHNSON & JOHNSON	X					X	Formula Value	X		X	X			
KANSAS CITY SOUTHERN	X							X						
KELLOGG	X							X			X		X	X
KEYCORP	X			X				X			X		X	
KIMBERLY-CLARK	X		X					X			X		X	
KLA-TENCOR	X			X				X						
KOHL'S	X							X						
KROGER	X		X	X				X						X
LEHMAN BROTHERS HOLDINGS	X		X					X			Options			
LEXMARK INTL GROUP	X		X	X				X						
LILLY (ELI)	X		X	X				X	X		X			
LIMITED	X		X	X				X		X				
LOCKHEED MARTIN	X		X	X				X	X		X		X	
LOWE'S	X			X		X	PARSAP	X			X	Stock		
LSI LOGIC	X							X						
LUCENT TECHNOLOGIES	X		X		X		PARSAP	X			X	Options		
MARRIOTT INTERNATIONAL	X		X	X		X				X	X		X	
MARSH & MCLENNAN	X		X							X				
MASCO	X		X				PARSAP	X	X				X	
MAY DEPARTMENT STORES	X		X		X				X		X		X	X
MBNA	X		X					X						
MCDONALD'S	X				X			X	X		X		X	X
MCGRAW-HILL	X			X		X			X		X			
MCI WORLDCOM	X		X					X				Stock		
MEDTRONIC	X		X	X				X	X			Options		
MELLON FINANCIAL	X		X		X	X	PARSAP	X						
MERCK	X							X			X		X	
MERRILL LYNCH	X		X						X		X			

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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS							DIRECTOR STOCK-BASED GRANTS				Ownership Guidelines	
	Appreciation		Full Value			Other Grants		Automatic		Elective		Executive	Director
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units		
MICRON TECHNOLOGY	X							X			X	Rest. Stock	
MICROSOFT	X							X					
MINNESOTA MINING & MFG.	X				X					X	X	Stock	
MOLEX	X							X			X		
MORGAN (J.P.)	X		X		X				X		X		
MORGAN STANLEY DEAN WITTER	X		X					X		X	X	Options	
MOTOROLA	X		X		X			X	X	X	X		X
NATIONAL CITY	X		X		X				X			X	X
NATIONAL SEMICONDUCTOR	X		X					X		X		Stock	
NETWORK APPLIANCE	X							X					
NEW YORK TIMES	X				X			X					
NEXTEL COMMUNICATIONS	X		X					X					
NIKE	X				X			X					
NORTEL NETWORKS	X			X				X			X		X
NORTHERN TRUST	X		X						X	X	X		
NOVELL	X		X					X					
OMNICOM GROUP	X		X	X					X			Stock	
ORACLE	X							X					
PARAMETRIC TECHNOLOGY	X							X					
PAYCHEX	X												
PE CORPORATION	X		X	X	X	X		X	X	X	X		X
PECO ENERGY	X		X						X			Stock	X
PEPSICO	X							X			X	Stock	
PFIZER	X		X	X					X		X		X
PG&E	X			X		X		X	X		X		X
PHARMACIA	X		X					X		X	X		X
PHILIP MORRIS	X	X	X		X			X		X	X		
PHILLIPS PETROLEUM	X			X					X	X		Rest. Stock	
PITNEY BOWES	X				X				X			Options	X
PNC BANK	X		X	X					X	X	X		X
PPG INDUSTRIES	X			X		X			X		X		
PROCTER & GAMBLE	X				X			X	X			Stock	X

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

Company	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines		
	Appreciation	Full Value			Other Grants		Automatic			Elective		Executive	Director	
	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants	Executive	Director
PROVIDIAN FINANCIAL	X		X					X			X	Stock		
QUAKER OATS	X		X					X	X		X	Options	X	
QUALCOMM	X							X						
RADIOSHACK	X		X					X				Stock		
RALSTON PURINA	X		X		X			X			X			
ROCKWELL INTERNATIONAL	X		X					X	X	X		Rest. Stock	X	
ROHM & HAAS	X		X		X				X		X		X	
SAFEWAY	X							X			X			X
SARA LEE	X		X	X		X		X			X	Options	X	
SBC COMMUNICATIONS	X		X	X					X		X	Stock		
SCHERING-PLOUGH	X		X	X					X	X	X			
SCHLUMBERGER	X													
SCHWAB (CHARLES)	X		X					X			X	Options		
SCIENTIFIC-ATLANTA	X		X	X				X	X	X	X	Stock	X	X
SEAGATE TECHNOLOGY	X		X					X				Options		
SEAGRAM	X								X	X	X	Stock		
SEARS, ROEBUCK	X		X	X	X	X		X	X				X	
SOLECTRON	X							X						
SOUTHERN COMPANY	X				X	X			X		X			
SOUTHWEST AIRLINES	X													
SPRINT	X		X					X			X	Stock		
STAPLES	X						PARSAP	X	X					
STATE STREET	X		X	X					X			Stock		
SUN MICROSYSTEMS	X		X					X					X	
SUNTRUST BANKS	X				X						X			
SYSCO	X		X					X		X		Stock		
TARGET	X							X	X			Stock		
TELLABS	X							X					X	
TERADYNE	X							X						
TEXACO	X			X		X			X	X	X	Stock		
TEXAS INSTRUMENTS	X		X	X		X		X	X		X			
TEXAS UTILITIES			X	X		X					X			

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

	EXECUTIVE LONG-TERM INCENTIVE GRANTS						DIRECTOR STOCK-BASED GRANTS					Ownership Guidelines		
	Appreciation		Full Value			Other Grants	Automatic			Elective				
Company	Stock Options	SARs	Restricted Stock	Performance Shares	Performance Units	Dividend Rights	Other Types	Stock Options	Restricted Stk./Deferred Stk. Units	Unrestricted Stock	Deferred Stock Units	Other Elective Grants	Executive	Director
TEXTRON	X		X	X				X			X		X	
TIME WARNER	X							X	X		X			
TRANSOCEAN SEDCO FOREX	X		X					X			X		X	
TRIBUNE	X							X		X	X		X	X
TYCO INTERNATIONAL	X			X		X		X			X	Options		
U.S. BANCORP	X		X					X				Stock		X
UNICOM	X		X	X						X	X	Stock		
UNION CARBIDE	X			X		X		X			X		X	
UNION PACIFIC	X		X						X		X		X	
UNISYS	X		X						X				X	X
UNITED HEALTHCARE	X							X						
UNITED TECHNOLOGIES	X		X			X		X	X		X			
USX	X	X		X		X			X		X			
VIACOM	X							X			X			
WACHOVIA	X	X	X						X		X			
WALGREEN	X			X						X	X			
WAL-MART STORES	X		X					X	X	X				
WASHINGTON MUTUAL	X			X				X	X					
WASTE MANAGEMENT	X		X					X			X			
WELLS FARGO	X		X					X		X	X		X	X
WEYERHAEUSER	X								X		X		X	
WILLIAMS COS.	X		X					X		X	X	Stock		
WRIGLEY (WM.) JR.	X		X	X		X			X		X			
XEROX	X		X	X		X		X	X			Rest. Stock	X	
XILINX	X							X						
YAHOO	X							X						

## 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 “other” 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)

#### *Other Grants:*

- Dividend Rights
- 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. The “other grants” classification represents a catchall category for awards that are neither pure appreciation nor full-value grants.

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 less 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 the option may be exercised prior to the set vesting 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, to secure favorable accounting treatment.
- *Performance-Vesting Stock Options* are similar to performance-accelerated stock options as their vesting or exercise price is subject to specific performance criteria. The difference is that these awards are considered to have “vesting with teeth” because the options are forfeited if the performance criteria are not met prior to or by the end of the option term. These grants are typically larger than a normal grant 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.
- *Restoration Stock Options* (sometimes referred to as “reload” stock options) are stock options granted as a result of exercising stock options using already-owned shares in a stock-for-stock exercise. The size of the additional stock option grant is equal to the number of shares used to pay the exercise price, with the new exercise price set at the current market value and

a term equal to that remaining on the original 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. Indexed options differ from performance options in that the exercise price of indexed options typically remains variable until the option is exercised.

## Definition of Grant Types

**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.

## Full-Value Grants

**Performance Units** are grants of cash or dollar-denominated units whose payment or value are 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; 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.

**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.

**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 would remain in effect.

## Other Grants

**Dividend Rights** are rights to receive dividends or the equivalent of dividends paid on a specified number of company shares, and are usually granted in conjunction with other grant types, e.g., stock options and performance shares.

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

## **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
- Internet Programs
- Performance Measurement
- Recruitment/Retention Incentives
- Change-in-Control Protection
- Compensation Committee Advisor
- Stock Option Enhancements

## **Our offices are located:**

### **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 addresses:**

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

*This report was prepared by Robert S. Timmerman in our New York office, with research assistance from Kristin Ciccari, David Cole, James Kim, Richard Kimball, Malia Mixon, Mark Merrigan and David Yang. Questions and/or comments should be directed to Mr. Timmerman.*





