

WELCOME

During the month of November, the number of option accelerators swelled to nearly 400, as a result, we decided to provide a follow-up article on the subject. Our latest research examines restrictions on accelerated options, the exclusion of non-employee directors and the prevalence of accelerators by sector. Accompanying this update are two feature articles that reveal key findings from Equilar's annual Executive Benefits and Perquisites Report and our Employee Stock Purchase Plan Report. Following our feature articles are monthly reviews of Proxy and 8-K disclosures where we examine targeted annual equity incentive awards and 10b5-1 stock trading plans.

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BENEFITS AND PERQUISITES

Key insights from Equilar's analysis of Fortune 500 benefits and perquisites disclosure

Executive benefits and perquisites have become a hot button issue in compensation and corporate governance circles. Specifically, the use of corporate aircraft, payment of country club dues, and reimbursement for taxes due on fringe benefits have all garnered intense scrutiny from the business media. Added pressure to provide complete and transparent disclosure of benefits and perquisites is being applied by the SEC through high profile enforcement actions and the bully pulpit. Given this evolving environment, Equilar analyzed the Proxy disclosure of benefits and perquisites at Fortune 500 companies to ascertain the prevalence and value of the various benefits that companies provide to their executive officers.

Below are several key insights from Equilar's 2005 Executive Benefits and Perquisites Report:

The Top Five Benefits

Of the over 25 specific benefits and perquisites included in our analysis, the five most prevalent (for at least one executive) among Fortune 500 companies are displayed in the table below. These benefits were identified from footnote disclosures associated with the "Other Annual Compensation" and "All Other Compensation" categories of the Summary Compensation Table.

Benefit	Disclosure Prevalence
401(k)/Savings Plan	82.3%
Life Insurance	55.6%
Transportation/Travel Expense	54.1%
Tax Reimbursement	42.3%
Relocation/Living Expenses	30.0%

Adding Up the Benefits

Equilar's analysis determined that the median value of total benefits awarded to all Named Executive Officers at each company in the Fortune 500 is approximately \$540,000. This value grew to just over \$900,000 among Fortune 100 companies. Worth noting is the wide variance in the total value of benefits awarded among different sectors.

Sector	Median Total Benefits Awarded to all Named Officers
Conglomerates	\$ 785,565
Healthcare	\$ 664,157
Consumer Goods	\$ 643,477
Financial	\$ 601,606
Technology	\$ 529,041
Industrial Goods	\$ 455,376
Services	\$ 442,729
Basic Materials	\$ 408,280
Utilities	\$ 299,556

To learn more about Equilar's 2005 Executive Benefits and Perquisites Report, please contact Equilar by phone (877.441.6090) or via email (sales@equilar.com).

THE NEW FACE OF EMPLOYEE STOCK PURCHASE PLANS

Examining the impact of FAS123R on ESPP proposals in 2005

Employee Stock Purchase Plans face an uncertain future. While ESPPs typically comprise a small percentage of a company's total stock-based compensation cost, these plans are often in the crosshairs when companies set out to reduce their FAS123R expense. Given that new safe-harbor standards commonly represent a significant reduction in current plan benefits, many companies have seriously considered the elimination of their ESPP. Within this context, Equilar recently completed an analysis of 140 ESPP proposals brought before shareholders since January 2005. The analysis sought to answer the question, "Does new equal less for Employee Stock Purchase Plans in the FAS123R environment?"

Prevalence of Proposals by Sector

To provide readers with a better understanding of the background of our analysis, the table below provides a breakdown of ESPP proposals by sector in 2005.

Sector	Number of Companies with Proposals in Sector	Prevalence Among all Proposals
Technology	62	44.3%
Healthcare	27	19.6%
Services	21	15.2%
Financial	10	7.2%
Consumer Goods	7	5.1%
Basic Materials	5	3.6%
Utilities	4	2.9%
Industrial Goods	4	2.9%

Look-Back Period and Discount Rate

Of the 140 ESPP proposals analyzed, 64.3% are amended versions of existing plans and 35.7% are new plans. For new and amended plans, the most common combination of look-back period and discount rate, representing approximately one-third of both plan types, is six months and 15%. The table below displays other common combinations of look-back periods and discount rates and indicates that new plans tend to be less generous than the amended plans.

Plan Type	Prevalence of No Look-Back and 15% Discount Rate	Prevalence of 6 Month Look-Back and 15% Discount Rate	Prevalence of 24 Month Look-Back and 15% Discount Rate
New Plan	22.2%	31.1%	4.4%
Amended Plan	5.1%	36.7%	15.2%

Share Requests

Companies typically request a much smaller number of shares for their ESPP than for their general equity compensation plans. This is likely the case because the usage of shares in qualified ESPPs is constrained by statutory limits as well as the level of workforce participation. Still, companies design their requests based on their knowledge of expected annual share usage and estimated future needs to avoid potential shortfalls of share availability in upcoming years. As the data below indicates, new plans tend to request significantly larger share allocations for their plans. Almost one in five new plans (18.0%) requested allocations of over 5% of shares outstanding and over 50% of new plans requested more than 2% of shares outstanding. Conversely, over 50% of amended plans requested less than 1% of shares outstanding.

Shares Requested as % of Shares Outstanding	Prevalence Among All Plans	Prevalence Among New Plans	Prevalence Among Amended Plans
Over 5%	9.3%	18.0%	4.4%
4% to 4.9%	2.1%	4.0%	1.2%
3% to 3.9%	9.3%	10.0%	8.9%
2% to 2.9%	17.9%	24.0%	14.4%
1% to 1.9%	20.7%	26.0%	17.8%
Less than 1%	40.7%	18.0%	53.3%

Safe Harbor

The term safe harbor, when applied to ESPPs, indicates that the plan is non-compensatory in nature and will not result in the company having to take a FAS123R charge. Currently, an ESPP is generally considered a safe harbor plan if it has a discount rate of 5% or less and no look-back period. Although the overall number of safe harbor plans is low, the prevalence of safe harbor plans was noticeably higher among new plans. In Equilar's analysis, plans with safe harbor provisions accounted for 12.0% of all new plans and 6.7% of all amended plans. This data again suggests that while the overall impact of FAS123R on ESPP plan design may be less significant than expected, its effects are more pronounced among new plans.

To learn more about Equilar's 2005 Employee Stock Purchase Plan Report, please contact Equilar by phone (877.441.6090) or via email (sales@equilar.com).

OPTION ACCELERATION FOLLOW-UP

The pace of acceleration events shows no signs of letting up as the end of the year approaches

In October, Equilar's option acceleration database surpassed 300 examples. As November draws to a close, over 80 additional companies have disclosed their decision to accelerate the vesting of a portion of their outstanding stock options. Given that our database suggests that acceleration events become more common at the end of each quarter, it is likely that the month of December will be extremely active. In the findings presented below, some interesting new trends come to light, chief among which are the rising prevalence of restrictions and the exclusion of non-employee directors from acceleration events. However, first we examine the prevalence of option accelerators by sector.

Prevalence by Sector

As the number of companies accelerating stock options continues to rise, so does the prominence of the technology sector among accelerators. As of November 21, 2005, companies in the technology sector accounted for 42.0% of all companies in Equilar's option acceleration database. Following in a distant second position are healthcare and biotechnology companies, representing 13.4% of the total companies. The table below shows the prevalence of each of the ten sectors tracked in Equilar's database.

Sector	Prevalence of Sector in Database
Technology	42.0%
Healthcare / Biotechnology	13.4%
Business Services	11.9%
Financial Services	11.1%
Consumer Goods	7.5%
Retail	6.2%
Industrial Goods	3.6%
Transportation	2.3%
Basic Materials	1.3%
Utilities	0.8%

Holding Requirements and Restrictions

In order to "avoid unintended personal benefits" as a result of the decision to accelerate the vesting of outstanding stock options, numerous companies have imposed restrictions and/or holding requirements on the sale or exercise of accelerated options. As of November 21, 2005, 17.5% of the companies which accelerated options required certain holders of accelerated options (usually executive officers) to accept restrictions on their options. Typically, these restrictions apply until the original vesting date of accelerated options expires. Furthermore, as the table below demonstrates, if one examines the prevalence of companies introducing restrictions and/or holding requirements among all accelerators in each month of 2005, it is clear that their use in conjunction with the acceleration of stock options is increasing.

Month of Acceleration (2005)	Prevalence of Restrictions in Each Month
January	14.3%
February	12.5%
March	16.2%
April	9.4%
May	16.7%
June	9.3%
July	18.2%
August	33.3%
September	35.0%
October	30.2%
November	26.7%

Exclusion of Non-Employee Directors

Given that the decision to accelerate the vesting of certain outstanding stock options is typically approved by members of the Board of Directors, 21.1% of the accelerators excluded non-employee directors from the acceleration event. These cases include the rare instances when only members of the specific committee responsible for the action (usually the Audit or Compensation Committee) were excluded from the acceleration. Similar to the trend observed with respect to the prevalence of restrictions and/or holding requirements, approximately one-third of companies that accelerated stock options in each of September, October and November 2005 (27.5%, 32.6% and 33.3% respectively) excluded non-employee directors from the acceleration event.

To learn more about the option acceleration database, please contact Equilar by phone (877.441.6090) or via email (sales@equilar.com).

PROXY CORNER

Disclosure of annual equity incentive award targets

While it is commonplace for companies to disclose details of their annual cash incentive targets and maximums, it is far less prevalent to find such disclosure regarding annual equity incentives. Yet, as companies begin to grapple with a more complex mix of equity vehicles, they must also begin to evaluate award size both in terms of shares and total value.

Targeted Grant Value

- Korn Ferry International - DEF 14A filed on August 4, 2005 - [LINK](#)

"In connection with the appointment of Paul Reilly as Chairman and Chief Executive Officer, [the Company] entered into an employment agreement with Mr. Reilly. [...] Mr. Reilly's base salary is \$650,000 [...] and] the agreement provides that Mr. Reilly will be eligible for an annual grant of stock options having a target grant value of \$1,250,000 and a maximum grant value of \$1,750,000 based on a Black-Scholes option pricing model valuation. We have also agreed to pay certain transition and relocation costs incurred by Mr. Reilly."

"On October 1, 2003, [the Company] entered into an employment agreement with Gary Burnison as Chief Operating Officer, Chief Financial Officer and Executive Vice-President. [...] Mr. Burnison's salary is \$475,000 per year, and the agreement provides for [...] an annual stock option grant with a target grant value equal to 50-100% of base salary and a maximum grant value equal to 100% of base salary based on a Black-Scholes option pricing model valuation."

"[The Company] entered into an employment agreement with Robert McNabb as Chief Executive Officer of Korn/Ferry International Futurestep, Inc. on October 1, 2003. [...] Mr. McNabb's salary is \$450,000 per year, and the agreement provides for [...] an annual stock option grant with a target grant value equal to 50% of base salary and a maximum grant value equal to 100% of base salary, based on a Black-Scholes option pricing model valuation."

- Royal Caribbean Cruises Ltd - DEF 14A filed on April 22, 2005 - [LINK](#)

"In 2004, the Compensation Committee, in consultation with its executive compensation consultant, agreed on targeted annual grant values of long-term incentive awards for each executive officer. The amount of the targeted values was determined based on competitive market data. The targeted aggregate value of the award for each executive officer was divided into the following two types of equity awards: (1) Stock Options. Options vest over a four-year period, with 25% becoming exercisable on each anniversary of the grant date, and have a ten-year term. All options are granted with an exercise price equal to the fair market value of the RCL common stock on the grant date and (2) Restricted Stock Units (RSUs). RSUs vest over a four-year period, with 25% converted to unrestricted, actual shares of RCL stock at each of the four anniversaries from grant date. The targeted annual grant values for each named executive officer, and the targeted allocation of this amount between stock options and RSUs, are as follows:"

Position	Targeted Grant Value	Allocation
Chairman & CEO	\$1,200,000	25% Stock Options; 75% RSUs
President & COO	\$900,000	25% Stock Options; 75% RSUs
EVP & CFO	\$600,000	25% Stock Options; 75% RSUs
Other Named Executive Officers	\$300,000 to \$400,000	25% to 50% Stock Options; 50% to 75% RSUs

- Louisiana Pacific Corp - DEF 14A filed on March 17, 2005 - [LINK](#)

"The mix between the two types of awards in terms of relative expected values was changed from one-third incentive shares and two-thirds stock options to a 50/50 split for 2004. Preliminary target values (using the Black-Scholes valuation model) were determined based on a percentage of the executive's base salary. For the stock option grants approved in January 2004, these target values equaled approximately 100% of each then executive officer's base salary level, except for Mr. Suwyn, whose target value equaled approximately 200% of his base salary level."

- Honeywell International Inc - DEF 14A filed on March 14, 2005 - [LINK](#)

"Mr. Cote's employment agreement provides for his employment as Chairman and Chief Executive Officer through February 18, 2007 (having served as President and Chief Executive Officer from February through June 2002), with automatic extensions of such agreement that retain a minimum

three year term. During the term of his agreement, Mr. Cote will have an annual salary of at least \$1,500,000, an annual target bonus opportunity equal to 125 percent of his base salary and shall be eligible for annual equity awards based on a target value of 230% of his then current base salary and annual incentive bonus target."

To learn more about a custom project to analyze equity compensation practices at a peer group of companies, please contact Equilar by phone (877.441.6090) or via email (sales@equilar.com).

8-KS AT A GLANCE

Detailed descriptions of 10b5-1 stock trading plans

In October's newsletter, we examined the disclosure of 10b5-1 stock trading plans in Form 4 filings. This analysis proved to be a valuable resource for determining the prevalence of insider trading plans within a given peer group. However, to uncover details on the structure and size of 10b5-1 stock trading plans, 8-K filings are the best resource, typically providing specific details on the following items:

- Number of shares that executives may potentially sell;
- Duration of trading plans;
- Rationale behind the adoption of a 10b5-1 trading plan; and
- The number of executive officers adopting a trading plan.

Stock Trading Plan Disclosure

- Yellow Roadway Corp - 8-K filing on November 21, 2005 - [LINK](#)

"Yellow Roadway Corporation (NASDAQ: YELL) today announced that Bill Zollars, Chairman, President and CEO of Yellow Roadway, has adopted a stock trading plan ("the plan") in accordance with Rule 10b5-1 of the Securities Act of 1934. Mr. Zollars' plan is a component of his overall tax and financial planning strategy that is designed to provide enhanced diversification and liquidity.

Rule 10b5-1 enables corporate officers and directors to establish stock trading plans for the orderly sale of predetermined amounts of securities. Such plans may be initiated only when the officers and directors are not in possession of material and non-public information. The rule allows individuals adopting such plans to sell shares over a specified amount of time, at specific prices in the future, even if subsequent material and non-public information becomes available to them.

Under the provisions of Mr. Zollars' plan, up to 117,860 of the 272,325 stock options he currently holds may be exercised and sold. Mr. Zollars' ownership of 134,360 shares of Yellow Roadway common stock is unaffected. Any transactions executed under the provisions of the plan, which is effective for approximately three months, will be reported through Form 4 filings with the Securities and Exchange Commission."

- Chubb Corp - 8-K filing on November 16, 2005 - [LINK](#)

"On November 16, 2005, John D. Finnegan, Chairman, President and Chief Operating Officer of The Chubb Corporation, entered into a Rule 10b5-1 trading plan with respect to 236,109 shares issuable upon exercise of a vested, premium priced option awarded to Mr. Finnegan on December 2, 2002 and which expires December 2, 2007. The plan provides that no sales may be made

thereunder prior to February 2, 2006."

- Molson Coors Brewing Co - 8-K filing on November 8, 2005 - [LINK](#)

"On November 4, 2005, W. Leo Kiely, III, President and Chief Executive Officer of Molson Coors Brewing Company (the "Company"), Timothy V. Wolf, Global Chief Financial Officer of the Company, and Samuel D. Walker, Global Chief Legal Officer of the Company each entered into written sales plans pursuant to the guidance specified by Rule 10b5-1 under the Securities Exchange Act of 1934. Each plan has been approved pursuant to the terms of the Company's policies. Each plan is part of the individual executive's long-term strategy to diversify assets and provides for the sale of shares of common stock of the Company in connection with exercises of vested stock options. Other Company executives may from time to time adopt 10b5-1 plans."

- Baker Hughes Inc - 8-K filing on November 7, 2005 - [LINK](#)

"On November 4, 2005, Mr. Alan R. Crain, Jr., Vice President and General Counsel of Baker Hughes Incorporated (the "Company"), entered into a Sales Plan with Morgan Stanley DW Inc. ("Sales Plan"). This Sales Plan is intended to comply with the requirements of Rule 10b5-1 promulgated by the Securities and Exchange Commission under Section 10(b) of the Securities Exchange Act of 1934. The Sales Plan covers the potential exercise of options and associated sale of up to 71,958 shares of the Company's Common Stock during the period commencing on December 6, 2005 and ending on March 3, 2007, unless terminated earlier under certain circumstances. "

- TRW Automotive Holdings Corp - 8-K filed on November 4, 2005 - [LINK](#)

"On November 3, 2005, certain executive officers of [the Company] adopted pre-arranged trading plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and the Company's policies regarding stock transactions. [...] Using these Plans, insiders can gradually diversify their investment portfolios, spread stock trades out over an extended period of time to reduce market impact and avoid concerns about transactions occurring at a time when they might possess inside information.

The executives have informed the Company that these stock sales are part of their individual programs for asset diversification. The Plans will not reduce the executives' ownership of shares of the Company below the stock ownership guidelines which the Company has established.

The Plan adopted by John C. Plant, the Company's Chief Executive Officer and President, provides for the sale of up to a total of 510,000 shares over a period of ten months beginning January 1, 2006. 430,000 of these shares will be acquired through the exercise of stock options. Shares will be sold under the Plan on the open market at prevailing market prices, subject to minimum price thresholds.

The Plan adopted by Peter J. Lake, the Company's Executive Vice President, Sales and Business Development, provides for the sale of up to a total of 134,000 shares over a period of approximately ten months beginning January 12, 2006. 84,000 of these shares will be acquired through the exercise of stock options. Shares will be sold under the Plan on the open market at prevailing market prices, subject to minimum price thresholds.

The Plan adopted by Joseph S. Cantie, the Company's Executive Vice President and Chief Financial Officer, provides for the sale of up to a total of 198,000 shares over approximately eight months beginning March 10, 2006. 168,000 of these shares will be acquired through the exercise of stock options. Shares will be sold under the Plan on the open market at prevailing market prices, subject to, in certain cases, minimum price thresholds.

The Plan adopted by David L. Bialosky, the Company's Executive Vice President and General Counsel, provides for the sale of up to a total of 164,000 shares over ten months beginning January 15, 2006. 144,000 of these shares will be acquired through the exercise of stock options. Shares will be sold under the Plan on the open market at prevailing market prices, subject to, in certain cases, minimum price thresholds.

The Plan adopted by Neil E. Marchuk, the Company's Vice President, Human Resources, provides for the sale of up to a total of 33,300 shares over nine months beginning February 1, 2006. All of these shares will be acquired through the exercise of stock options. Shares will be sold under the Plan on the open market at prevailing market prices, subject to minimum price thresholds."

To learn more about Equilar's 10b5-1 stock trading plans database, please contact Equilar by phone (877.441.6090) or via email (sales@equilar.com).

EQUILAR IN THE NEWS

Recent articles in leading media publications featuring Equilar research

The following articles feature Equilar research:

- [At Age Five, Individual Trading Plans Hit Their Stride](#)
Compliance Week - November 8, 2005
- [Gimmickry of Accelerated Option Vesting](#)
Associated Press - November 4, 2005
- [Most Powerful Women in Business: The 10 Highest Paid](#)
Fortune - November 2005
- [Performance Is Linked to Pay Lower in Ranks](#) (Subscription Required)
Base and Bonus - November 2005
- [Boards Resist Calls to Stop Perk Gross-Ups](#) (Subscription Required)
Base and Bonus - November 2005

Members of the press or interested members of the public should feel free to contact Equilar at press@equilar.com. We would be happy to help provide data and an analysis to assist you with your story.

EQUILAR ON THE ROAD

A calendar of upcoming Equilar presentations

Equilar will be appearing at the following event in January:

- January 7, 2005 - Practicing Lawyer's Institute (San Francisco)

Please contact us at sales@equilar.com if you would like any information on these events or would like to request copies of any presentation material from these events.

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Questions and comments

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