

Welcome to Equilar's monthly newsletter. We would like to take a brief moment to highlight key trends in executive compensation and update you on Equilar's activities.

▶ **CEO TOTAL DIRECT COMPENSATION INCREASES 5% DURING FIRST HALF OF 2003**

Our study of annual proxy filings for 69 companies in the S&P 500 Index with fiscal years ending between January 2003 and June 2003 revealed the following patterns in CEO compensation (all median statistics):

Compensation Category	2003	2002	% Change
Base Salary	\$886,219	\$850,000	+4.3%
Cash Bonus	\$605,000	\$480,160	+26.0%
Restricted Stock Awards*	\$2,310,000	\$1,340,000	+73.0%
Long-Term Incentive Plan Payouts*	\$449,512	\$403,054	+11.5%
Value of Stock Option Grants**	\$3,980,000	\$5,490,000	-27.5%
Number of Stock Options Granted	300,000	320,000	-6.3%

\* Note: Restricted Stock Awards and LTIP Payouts are medians among CEOs receiving such compensation. The percentage of CEOs who received restricted stock awards rose from 21.7% in 2002 to 24.6% in 2003, while CEOs who received LTIP payouts remained constant at 13%.

\*\* Value of option grants based on Equilar analysis utilizing a consistent Black-Scholes methodology across all companies.

To access a press release containing more complete analysis, please click [here](#).

▶ **PAY FOR PERFORMANCE: ANALYZING METRICS FOR ANNUAL INCENTIVE PAY (BONUSES)**

Securities and Exchange Commission Chairman Donaldson recently focused on the issue of executive pay in a speech at the National Press Club. He noted that compensation committees must now "begin to look exactly into what they're compensating for," and move beyond "simple issues like earnings per share and the increase in earnings per share" when paying executives.

Given Donaldson's interest in the topic and the first half increase in bonus pay (26%) described above, we decided to take a closer look by analyzing the performance metrics used to determine annual bonuses at S&P 100 companies. Section 162(m) of the IRS tax code disallows the deductibility of certain compensation in excess of \$1.0 million per year unless it is considered performance-based compensation under the tax code. Hence, companies disclose performance metrics utilized to determine executive bonuses and ensure compensation deductibility under Section 162(m).

Here are our major findings:

- Earnings Per Share (EPS) and Revenue were the top metrics used in determining CEO bonuses for 2002. Here is a list of the six most frequently cited metrics for S&P 100 companies in 2002 and 2001:

Metric Category	2002	2001
Earnings per Share	51%	47%
Revenue	37%	37%
Other Profit Measures (Operating, Gross, Net, EBIT)	31%	40%

Human Resources*	25%	23%
Cash Flow (EBITDA, Free Cash Flow, Operating Cash Flow)	23%	21%
Strategic Initiatives	22%	17%

\* More details on Human Resource metrics presented in the table below.

- On average, companies utilized 3.9 metrics to determine annual incentive compensation for CEOs, with close to 68% of companies focusing on three or fewer metrics. Approximately two-thirds of the metrics were financial in nature, while one-third were qualitative in nature.
- 48 companies in the S&P 100 altered their annual incentive performance metrics in 2002. These changes included adding, deleting, modifying, and changing the importance of specific metrics.
- Of the companies that listed more than one metric in 2002, 19 out of 82 companies (23%) provided specific weights for each of the metrics included.
- The Human Resource metrics cited most frequently in 2002 were:

Most Common Human Resource Metrics	Frequency
Talent Management/Development	11
Diversity	8
Employee Satisfaction	6
Retention	3
Recruitment	2
Organizational Capability	2
People	1
Succession Planning	1

\* Note: Some companies listed more than one item.

- We also discovered certain metrics showed up consistently across specific industries:
  - All of the financial services firms in the S&P 100 used return on equity as a performance metric.
  - Four of eight healthcare companies included product development or research and development as one of their metrics.
  - Three of four aerospace and defense companies have a cash flow metric.
  - In the fast growing pharmaceutical/biopharmaceutical field, five companies utilized a sales metric.

Please contact Equilar at [info@equilar](mailto:info@equilar) if you are interested in a more detailed analysis of annual bonus incentives.

### ▶ **THIRD QUARTER, 2003: LARGEST RESTRICTED STOCK AWARDS**

The information regarding restricted stocks awarded in the third quarter of 2003 was generated using Equilar's Form 4 Service. Stay tuned for updates regarding the availability of this new service in the upcoming weeks.

CEO Name (Company Name)	Date of Award	Number of Restricted Shares	Closing Stock Price on Date of Award	Value of Award
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Timothy M. Donahue (Nextel Communications)	8/11/2003	1,000,000	\$17.90	\$17,900,000
Charles Prince (CitiGroup)	7/15/2003	318,337	\$46.47	\$14,793,120
W. James Farrell (Illinois Tool Works)	8/8/2003	140,000	\$68.09	\$9,532,600

## ▶ EQUILAR IN THE NEWS - HIGHEST PAID HR EXECUTIVES

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- [Lifting the Lid: Some boards still shy about meeting](#) (**Reuters**, October 17, 2003)
- [EPS, Revenue Top Metrics For Setting CEO Bonuses](#) (**Compliance Week**, October 14, 2003)
- [Women Executive Match Male Counterparts in Pay](#) (**Bloomberg**, October 8, 2003)

## ▶ CONTACT EQUILAR

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