

Welcome to Equilar's February/March newsletter. This month we will lead by highlighting our newest product, CompTracker. Following the introduction of CompTracker, we will turn our focus towards an analysis of premium priced options before assessing trends in Pay for Performance.

► **COMPTRACKER™ IS HERE... JUST IN TIME FOR PROXY SEASON!**

Equilar is proud to announce the launch of CompTracker, an e-mail alert service now available to all Equilar subscribers. CompTracker's intuitive user interface allows clients to track information such as new option grants or restricted stock awards for targeted companies and executives shortly after the Board approves them, then delivers e-mail summaries directly to clients. As we approach the peak of proxy season, there is no time like the present to subscribe to CompTracker – the product that eliminates the need to hunt through thousands of SEC filings. To learn more about CompTracker, please reference the "Frequently Asked Questions About CompTracker" section provided towards the end of this newsletter.

► **PREMIUM PRICED OPTION GRANT EXAMPLES**

With IBM's recent announcement about granting premium priced options to their top 300 executives, Equilar decided to assess the prevalence of this practice. Presented below are five examples of companies that granted premium priced options to one or more of their executives in at least one of the last three years, as disclosed in 2001-2003 proxy filings. Corresponding to each example is a premium value of the exercise price over fair market value on the date of the grant. Generally, a portion of the executives' options were granted at a premium exercise price, with the remainder set at fair market value.

Company Name	Premium of Exercise Price Over Fair Market Value
Tesoro Petroleum	55%-133% Premium
Chubb Insurance	25% Premium
Liz Claiborne	25% Premium
Ecolab, Inc.	19% Premium
Briggs & Stratton	6%-8% Premium

► **DOES CEO PAY ADJUST ACCORDING TO COMPANY PERFORMANCE?**

Equilar analyzed CEO pay and company performance for S&P 1500 companies from 2000-2002 to try and answer the question, "Does CEO pay adjust according to company performance?" Equilar rated the companies based on their Total Shareholder Return (TSR) over this period and focused on the strong-performing companies (top 10%) and weak-performing companies (bottom 10%) to gauge how CEO pay varied during this time frame. To provide some context, in a period when the S&P 500 Index was down over 40.0% and the Russell 2000 Small Cap Index was down 21.0%, the top performers delivered median shareholder returns of 202.9%.

Here are the highlights, all in median values:

**Top Ten Percent Performers**

	2000	2002	% Change
Total Compensation (1)	\$2,070,163	\$3,167,925	+53.0%
Cash Compensation (2)	\$889,948	\$1,335,864	+50.1%
Long-Term Incentive Pay (3)	\$821,855	\$1,778,082	+116.3%

Revenues	\$569,836,500	\$757,805,000	+33.0%
<b>Indexed Stock Price (4)</b>	<b>\$100.00</b>	<b>\$302.90</b>	<b>+202.9%</b>

### Bottom Ten Percent Performers

	2000	2002	% Change
Total Compensation (1)	\$4,116,157	\$2,069,619	-49.7%
Cash Compensation (2)	\$772,475	\$593,327	-23.2%
Long-Term Incentive Pay (3)	\$2,778,672	\$1,233,150	-55.6%
Revenues	\$932,000,000	\$701,700,000	-24.7%
<b>Indexed Stock Price (4)</b>	<b>\$100.00</b>	<b>\$21.20</b>	<b>-78.8%</b>

(1) Total Compensation represents the sum of salary, bonus, Black-Scholes value of option grants, restricted stock awards and long-term incentive plan payouts.

(2) Cash Compensation represents the sum of salary and bonus.

(3) Long-term Incentive Pay is equal to the sum of Black-Scholes value of option grants, restricted stock awards and long-term incentive plan payouts.

(4) Change in Indexed Stock Price represents total shareholder return for this three year period.

Equilar evaluated the compensation received by the top-performing CEOs as a percentage of the increase in market capitalization during this three year period. The chart below provides summary statistics on Total Compensation and Cash Compensation as a percentage of the increase in market capitalization created by the top performing CEOs in the analysis (i.e. a median value of 1.05% Total Compensation indicates that a CEO received \$1.05 in Total Compensation for every \$100.00 increase in market capitalization):

	Total Compensation	Cash Compensation
Median	1.05%	0.38%
25th Percentile	0.63%	0.23%
75th Percentile	1.75%	0.71%
Minimum	0.15%	0.03%
Maximum	9.13%	3.93%

Finally, Equilar thought it would be interesting to evaluate the CEOs who were the most cost effective from a shareholder's perspective. The table below compares the three year total compensation for these CEOs as a percentage of the shareholder value that they created over the same period:

Executive Name	Company Name	Market Cap Increase (\$MM)	Total Comp	% of Value Created
Kevin P. Knight	Knight Transportation, Inc.	\$520.8	\$790,000	0.15%
Michael J. Hayes	Freds, Inc.	\$499.7	\$935,016	0.19%
J. Hyatt Brown	Brown & Brown, Inc.	\$1,610.2	\$3,298,372	0.20%
Terry L. Shepherd	St. Jude Medical, Inc.	\$4,516.9	\$9,882,859	0.22%
Ronald M. Shaich	Panera Bread Co.	\$935.7	\$2,219,508	0.24%

### ► EQUILAR IN THE NEWS

- [After I.B.M.'s Options Overhaul](#) (*The New York Times*, February 29, 2004)
- [IBM Changes Executive Stock Option Grant Policy](#) (*Reuters*, February 24, 2004)
- [Stock Option Grants, Restricted Stock Awards in Jan.](#) (*Compliance Week*, February 24, 2004)
- [SBC's Whitacre Mocks Shareholders on Pay, Stock](#) (*Bloomberg*, February 19, 2004)

- [U.S. CEOs Replace Option Grants With Free Shares](#) (**Bloomberg**, February 11, 2004)
- [Executive Pay, Hiding Behind Small Print](#) (**The New York Times**, February 8, 2004)
- [Bonuses Bountiful at Tech Firms](#) (**Wired News**, February 5, 2004)
- [Anadarko CEO Got Top Restricted Stock Award in Dec.](#) (**Compliance Week**, January 27, 2004)
- [Glass Ceiling Still Bumping Heads of Women Execs](#) (**The Albuquerque Tribune**, January 23, 2004)

Members of the press or interested members of the public should feel free to contact us at [press@equilar.com](mailto:press@equilar.com). We would be happy to help provide data and analysis to assist you in your story.

## ▶ EQUILAR ON THE ROAD

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Over the next month, Equilar will be appearing at the following venues:

- March 4th - IRRC's Annual Proxy Preview and Briefing (San Francisco, California)
- April 8th - Kansas City Compensation and Benefits Meeting (Kansas City, Missouri)

## ▶ FREQUENTLY ASKED QUESTIONS ABOUT COMPTRACKER

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### **How does CompTracker work?**

You set up alerts of companies or executives that you wish to track. When companies or executives file compensation information with the SEC that match your profile (either in an annual proxy or Form 4 filing), we send you a summary of his/her compensation package in an e-mail.

### **How do I set up my alerts?**

Once you login, select "E-Mail Alerts" from the navigation bar underneath "My Equilar" and you'll find detailed instructions to walk you through the process. If you have any questions, please contact Equilar Client Support by phone at 877.441.6090 or e-mail at [support@equilar.com](mailto:support@equilar.com).

### **How many alerts can you setup?**

Unlimited – as many as you would like.

### **How much does CompTracker cost?**

The best thing about CompTracker is that it is **free** for all of Equilar's ExecutiveInsight (proxy filings) and AwardsInsight (Form 4) annual subscribers.

### **How often will I receive these alerts?**

You set the frequency – this could be once a day, once a week or for each individual transaction.

### **I noticed that there are hyperlinks in the e-mail. Where do these take me?**

If you click on a linked value, Equilar's SureSource™ technology will take you directly to the actual SEC filing from which the data came. When you come to our site, please enter your username and password and the SEC filing will load automatically once you enter.

## ▶ CONTACT EQUILAR

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If you would like to learn more about Equilar and how we can help you, please contact us by phone (877.441.6090), e-mail ([support@equilar.com](mailto:support@equilar.com)), or visit us on the Web at [www.equilar.com](http://www.equilar.com).

If you were forwarded this e-mail and wish to be included in future mailings, please send an e-mail to [support@equilar.com](mailto:support@equilar.com) with the word "subscribe" in the subject field. If you wish to remove yourself from this list, please send e-mail to [support@equilar.com](mailto:support@equilar.com) with the word "remove" in the subject field.

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