

Welcome to Equilar's May newsletter. This month's issue analyzes changes in compensation at S&P 500 companies for boards of directors. We will also examine employee stock purchase plans, before revealing interesting proxy disclosures in our Proxy Corner. Finally, we will wrap up the May newsletter with the five highest restricted stock awards and option grants from April, 2004. We hope you enjoy this edition of Equilar's newsletter!

► BINOMIAL IS HERE!

In anticipation of the move to the expensing of options, we have recently expanded our option valuation methodology to include the following key features:

- In addition to Black-Scholes estimates, we now provide binomial values for all option grants. You can compare pay packages across companies on an "apples-to-apples" basis using both the Black-Scholes AND binomial lattice models.
- With our Option Grant Calculator, you can calculate a binomial estimate for any pending option grant by defining your own set of assumptions. Research historical one, three, five and ten-year volatilities for companies in the entire Equilar coverage universe and also allow for the early exercise of options.

To learn more about binomial lattice models, contact Equilar by phone (877.441.6090) or e-mail info@equilar.com.

► S&P 500 DIRECTOR COMPENSATION INCREASES 9.0% IN 2003

Equilar relied on information from annual proxy filings for 468 companies in the S&P 500 index with fiscal years ending between January 2003 and December 2003 to reveal patterns in board of directors' compensation. The analysis includes cash retainers, shares of common stock, stock units, stock options, committee retainers and meeting fees paid to board members to generate the following trends (median figures provided below):

Compensation Category	2003	2002	% Change
Cash Retainer	\$37,500	\$30,000	+25.0%
Long-Term Incentives*	\$75,000	\$78,764	-4.8%
Value of Stock Option Grants**	\$66,061	\$81,227	-18.7%
Number of Stock Options Granted	5,000	5,000	+0.0%
Value of Stock Awards***	\$37,000	\$33,880	+9.2%
Value of Stock Unit Awards***	\$44,240	\$38,760	+14.1%
TOTAL COMPENSATION	\$153,156	\$140,551	+9.0%

* Long-Term Incentives include options, stock awards and stock unit awards.

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

*** Stock awards and stock unit awards are medians among directors receiving such compensation. The percentage of directors who received stock awards rose from 38.6% in 2002 to 39.5% in 2003, while directors who received stock unit awards increased from 20.3% to 24.6%.

► EMPLOYEE STOCK PURCHASE PLANS AT S&P 500 COMPANIES

Employee stock purchase plans (ESPPs) affect approximately 10.5 million employees of S&P 500 companies. In light of the proposed expensing of ESPPs, we decided to examine ESPPs at S&P 500 companies. Here is a brief summary of our findings:

- 54% of S&P 500 companies disclosed the presence of an employee stock purchase plan in a recent 10-K or DEF 14A filing.
- Disclosure tends to be quite inconsistent regarding these plans. For example, 22% of S&P 500 companies with ESPPs disclosed little more than their company's plan name.
- Companies have started to modify their plans in anticipation of option expensing. The most popular modifications, as disclosed in the company's 10-K filing, include:

- Decreasing purchase price discounts:

The ESPP portion of the plan allows employees to purchase shares at 95 percent of the stock price on the grant date, rather than 85 percent of the stock price offered in previous years. [Fannie Mae 10-K dated 3/15/04]

Eligible employees may purchase Deluxe common stock at 85% of the lower of its fair market value at the beginning or end of each six-month purchase period... Through January 31, 2002, we maintained a non-qualified employee stock purchase plan that allowed eligible employees to purchase Deluxe common stock at 75% of its fair market value. [Deluxe Corporation 10-K dated 3/12/04]

- Eliminating stock purchase discounts altogether:

Under the plan prior to May 1, 2003, shares of Gateway's common stock could be purchased at 85% of the lower of the fair market value on the first or last business day of each month. Effective May 1, 2003, shares of Gateway's common stock could be purchased at 100% of fair market value. [Gateway, Inc. 10-K dated 2/27/04]

- Indefinitely suspending, canceling or not renewing ESPPs:

We have decided to defer any decision regarding a new employee stock purchase plan until after the FASB has issued new standards on accounting for stock-based compensation. [Georgia Pacific Group 10-K dated 2/3/04]

Effective May 31, 2003, we suspended employee purchases of company stock under the ESPP...Effective January 1, 2003, AT&T began recording compensation expense pursuant to SFAS No. 123 for all stock options issued subsequent to January 1, 2003. [AT&T 10-K dated 3/15/04]

- On an industry basis, technology companies were the most prevalent users of these plans. Ninety-four percent of S&P 500 technology companies have active ESPPs in place.
- The typical plan offers a 15% discount, with 59% of companies providing such a discount.

To find out more about employee stock purchase plans, contact Equilar by phone (877.441.6090) or e-mail info@equilar.com.

▶ PROXY CORNER

Here are some interesting items that we came across in recent proxy filings, including an altruistic CEO and renewed focus on performance measurements:

- LTIP options granted to the CEO of a major retail store redistributed to non-executive employees.

For fiscal 2004, no LTIP awards were made to Mr. Anderson. Instead, the committee honored

Mr. Anderson's request to use options to purchase 200,000 shares that would otherwise have been granted to him pursuant to the LTIP to make discretionary stock option grants to non-executive employees who made outstanding contributions to our strategic initiatives and provided premium service to our customers. [Best Buy Co., Inc., DEF 14A dated 5/17/04]

- An online auction company increased annual emphasis on performance measurements and targeted cash compensation at median levels.

In January of 2004, the Committee modified the executive MIP for 2004, placing more emphasis on the annual measurement of performance and completing a two year process of moving total cash compensation (salary plus target bonus) to median competitive levels. Total annual target bonus amounts for executive officers (other than the CEO) will be 60-75% of base salary, depending on the position. 50% of the 2004 bonus target will be based on annual performance and 50% (12.5% per quarter) will be based on quarterly performance. [eBay, Inc. DEF 14A dated 5/17/04]

- A cosmetics company changed from tenure-based restricted stock to performance-based restricted stock.

We believe that the use of performance-based restricted stock better aligns the company's management team's interests with those of the company's shareholders in that it requires the achievement of pre-established performance criteria as a condition to the vesting of those shares. [Elizabeth Arden, Inc., DEF 14A dated 5/14/2004]

- A financial company increases the number of criteria used in performance evaluation from a single criteria (years ago) to four criteria (last year) to five criteria (next year).

For 2004, the Committee has established five criteria upon which performance will be measured: revenues; earnings per share as reported under generally accepted accounting principles; cash generated from operations; certain market share metrics; and overall effectiveness of management. [eTrade Financial Corp, DEF 14A dated 4/29/2004]

Looking to see how some of your competitors are adapting their equity compensation strategies or for examples of companies who have begun granting Stock Appreciation Rights (SARs)? Contact Equilar today at info@equilar.com for a specialized proxy analysis.

► LARGEST OPTION GRANTS AND RESTRICTED STOCK AWARDS (APRIL 2004)

Information regarding the five largest option grants and restricted stock awards made in April 2004 was generated using Equilar's AwardsInsight™ (Form 4) service.

Largest Stock Option Grants in April 2004						
Company Name	Executive Name	Executive Title	Transaction Date	# Options Granted	Share Price on Grant Date	Face Value of Award*
Countrywide Financial Corp	Stanford L. Kurland**	President & COO	04.01.2004	475,000	\$95.58	\$45,400,500
Countrywide Financial Corp	Angelo R. Mozilo	Chairman & CEO	04.01.2004	466,667	\$95.58	\$44,604,032
Countrywide Financial Corp	David Sambol**	Exc Mgr Dir, Mtg Bank, CapMkts	04.01.2004	355,000	\$95.58	\$33,930,900
Phillips Van Heusen Corp	Bruce J. Klatsky***	Chairman & CEO	04.12.2004	1,750,000	\$18.75	\$32,812,500
St. Jude Medical Inc.	Daniel J. Starks	President & COO	04.23.2004	260,000	\$78.36	\$20,373,600

* Face value calculated by multiplying the number of shares granted by the closing market price per share on the grant date.

** Options for Kurland and Sambol may conditionally vest in equal installments on April 1, 2005, April 1, 2006 and April 1, 2007

upon achievement of certain corporate EPS targets. If corporate targets are not achieved, the option will vest on October 1, 2008. *** Options to acquire 50% of shares exercisable if the closing price of Issuer's Common Stock averages \$22.50 or higher for any 20 consecutive trading days prior to 4/11/2011. Options to acquire an additional 25% of shares exercisable if the closing price of Issuer's Common Stock averages \$25.00 or higher for any 20 consecutive trading days prior to 4/11/2011. Options to acquire the remaining 25% of shares exercisable if the closing price of Issuer's Common Stock averages \$27.50 or higher for any 20 consecutive trading days prior to 4/11/2011.

Largest Restricted Stock Awards in April 2004						
Company Name	Executive Name	Executive Title	Transaction Date	# Shares Awarded	Share Price on Grant Date	Value of Award
iStar Financial Inc.	Jay Sugarman*	Chairman & CEO	04.01.2004	728,552	\$42.75	\$31,145,598
Mandalay Resort Group	Michael S. Ensign	Chairman, CEO & COO	04.09.2004	405,000	\$61.02	\$24,713,100
Anthem, Inc.	Larry C. Glasscock	President & CEO	04.02.2004	232,189	\$91.49	\$21,242,972
Mandalay Resort Group	William A. Richardson	Vice Chairman	04.09.2004	300,000	\$61.02	\$18,306,000
MCI, Inc.	Michael D. Capellas	President & CEO	04.27.2004	841,515	\$18.00	\$15,147,270

*Note: Sugarman's stock award was an incentive award granted on March 2, 2001. Shares became contingently vested when the price of the company's common stock achieved certain specified thresholds.

▶ EQUILAR IN THE NEWS

- [Lucent Throws a Pay Party](#) (*Forbes*, May 16, 2004)
- [Bay State CEO Pay Tops Chart](#) (*The Herald News*, May 16, 2004)
- [Most Idaho CEOs Brought Home More Pay in '03](#) (*The Idaho Statesman*, May 16, 2004)
- [CEO Compensation Debate Continues](#) (*Hampton Roads Daily Press*, May 16, 2004)
- [Fund Directors Take Home Higher Pay, Two Studies Show](#) (*The Wall Street Journal*, April 27, 2004)
- [Pay For Small Cap CEOs Is Tracking With Larger Firms](#) (*Compliance Week*, April 27, 2004)
- [Executive Compensation Rises Through Lavish to Absurd](#) (*St. Petersburg Times*, April 26, 2004)
- [Pay For Both S&P 500 and Small Cap CEOs Drops in 2003](#) (*HR Executives*, April 26, 2004)
- [Transmeta CEO Got 15 Percent of Options Last Year](#) (*Reuters*, April 23, 2004)
- [Cash Is King](#) (*San Francisco Chronicle*, April 23, 2004)
- [When Will They Stop](#) (subscription required) (*Fortune*, April 21, 2004)

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

▶ EQUILAR ON THE ROAD

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

- May 23rd-26th - Booth #711, WorldatWork Annual Conference (Boston, Massachusetts)
- June 3rd - Chicago Compensation Association Annual Conference (Chicago, Illinois)
- June 8th - Twin Cities Compensation Network (Minneapolis, Minnesota)

▶ CONTACT EQUILAR

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 (info@equilar.com), or visit us on the Web at www.equilar.com.

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