

SCHWAB CHARLES CORP
Form DEF 14A
March 29, 2004
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SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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The Charles Schwab Corporation

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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THE CHARLES SCHWAB CORPORATION

2004 Proxy Statement

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LETTER TO STOCKHOLDERS

March 29, 2004

Dear Fellow Stockholders,

We cordially invite you to attend our 2004 annual meeting of stockholders. The meeting will be held on Monday, May 17, 2004, at 2:00 p.m., Pacific time, at the Yerba Buena Center for the Arts Theater, 701 Mission Street, San Francisco, California.

At the meeting we will:

- elect three directors for three-year terms,
- vote on the approval of the 2004 Stock Incentive Plan, and
- conduct any other business properly coming before the meeting.

We also will report on our corporate performance in 2003 and answer your questions.

We wish to express our appreciation and gratitude to Anthony M. Frank for his distinguished service to the company as a director for more than twelve years. Mr. Frank will retire from the Board at the time of our annual meeting. We are pleased that Mr. Frank will serve as the first emeritus director of The Charles Schwab Corporation after his retirement and has been nominated to serve as a director of Charles Schwab Bank, N.A.

We look forward to seeing you at our annual meeting. If you cannot attend the meeting in person, we hope you will join us via our Webcast.

Sincerely,

CHARLES R. SCHWAB
CHAIRMAN

DAVID S. POTTRUCK
CHIEF EXECUTIVE OFFICER

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NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS

The 2004 annual meeting of stockholders of The Charles Schwab Corporation will be held on Monday, May 17, 2004, at 2:00 p.m., Pacific time, at the Yerba Buena Center for the Arts Theater, 701 Mission Street, San Francisco, California, to conduct the following items of business:

- elect three directors for three-year terms,
- vote on the approval of the 2004 Stock Incentive Plan, and
- conduct any other business properly coming before the meeting.

Stockholders who owned shares of our common stock at the close of business on March 18, 2004 are entitled to attend and vote at the meeting and any adjournment or postponement of the meeting. A complete list of registered stockholders will be available prior to the meeting at our principal executive offices at 120 Kearny Street, San Francisco, California 94108.

By Order of the Board of Directors,

CARRIE E. DWYER

EXECUTIVE VICE PRESIDENT,

GENERAL COUNSEL AND

CORPORATE SECRETARY

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VOTING YOUR SHARES

We, the Board of Directors of The Charles Schwab Corporation, are sending these proxy materials to you, the stockholder, on or about March 29, 2004.

This proxy statement describes the proposals on which we would like you to vote. It contains essential information to consider when making your decisions.

Your vote is important.

VOTING YOUR SHARES

Stockholders who owned the company's common stock at the close of business on March 18, 2004 may attend and vote at the annual meeting. Each share is entitled to one vote. There were 1,363,839,940 shares of common stock outstanding on March 18, 2004.

How do I vote?

ii You may vote on the Internet.

You do this by following the "Vote by Internet" instructions that came with your proxy statement. If you vote on the Internet, you do not have to mail in your proxy card. *Voting on the Internet is the least expensive means for us to process your vote.*

ii You may vote by telephone.

You do this by following the "Vote by Telephone" instructions that came with your proxy statement. If you vote by telephone, you do not have to mail in your proxy card.

ii You may vote by mail.

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You do this by completing and signing your proxy card and mailing it in the enclosed prepaid and addressed envelope. *Voting by mail is the most expensive means for us to process your vote.*

ii You may vote in person at the meeting.

We will pass out written ballots to anyone who wants to vote in person at the meeting. However, if you hold your shares in street name, you must request a proxy from your stockbroker in order to vote at the meeting. Holding shares in street name means you hold them through a brokerage firm, bank or other nominee, and therefore the shares are not held in your individual name.

What am I voting on?

We are asking you to vote for:

- the election of three directors for terms of three years, and
- the approval of the 2004 Stock Incentive Plan.

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PROPOSALS TO VOTE ON

ITEM 1. ELECTION OF DIRECTORS

Nominees for directors this year are Donald G. Fisher, Paula A. Sneed and David B. Yoffie.

Each nominee is presently a director of the company and has consented to serve a new three-year term.

We recommend a vote for these nominees.

ITEM 2. APPROVAL OF THE 2004 STOCK INCENTIVE PLAN

The Board has approved the 2004 Stock Incentive Plan, subject to stockholder approval. If approved by stockholders, the 2004 Plan will be the sole plan for making future stock-based awards, and no further awards will be made under the Employee Stock Incentive Plan, 2001 Stock Incentive Plan and 1992 Stock Incentive Plan. Accordingly, the number of shares available under the 2004 Stock Incentive Plan will represent approximately the same percentage of outstanding shares as the number of shares available under the company's existing stock incentive plans.

All employees, non-employee directors and consultants will be eligible to participate in the 2004 Stock Incentive Plan. As with the other plans, the purpose of the 2004 Stock Incentive Plan is to promote the long-term success of the company and increase stockholder value by:

- recruiting, motivating, and retaining the caliber of employees and non-employee directors (and in certain instances consultants) essential for achievement of the company's success,
- linking the interests of employees, non-employee directors and consultants directly to stockholder interests, and
- encouraging employees, non-employee directors and consultants to focus on long-term objectives.

If stockholders do not approve the 2004 Plan, awards will continue to be made under the existing plans in accordance with their terms.

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For more information about the 2004 Stock Incentive Plan, see the description of its terms in Exhibit A.

We recommend a vote for the approval of the 2004 Stock Incentive Plan.

OTHER BUSINESS

We know of no other business to be considered at the meeting. However, if:

- other matters are properly presented at the meeting, or at any adjournment or postponement of the meeting, and
- you have properly submitted your proxy,

then Charles R. Schwab and David S. Pottruck will vote your shares on those matters according to their best judgment.

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THE BOARD OF DIRECTORS

MEMBERS OF THE BOARD OF DIRECTORS

NANCY H. BECHTLE

DIRECTOR SINCE 1992

Ms. Bechtle, age 66, served as President and Chief Executive Officer of the San Francisco Symphony from 1987 until December 2001, and has served as a member of the San Francisco Symphony Board of Governors since 1984. She was a director and Chief Financial Officer of J.R. Bechtle & Co., an international consulting firm, from 1979 to 1998. Ms. Bechtle also has served as Chairman and Chief Executive Officer of Sugar Bowl Ski Resort, and as a director of Sugar Bowl Corporation, since 1998. Ms. Bechtle's term expires in 2006.

C. PRESTON BUTCHER

DIRECTOR SINCE 1988

Mr. Butcher, age 65, has been Chairman and Chief Executive Officer of Legacy Partners (formerly Lincoln Property Company N.C., Inc.), a real estate development and management firm, since 1998. Mr. Butcher served as President, Chief Executive Officer and Regional Partner of Lincoln Property Company N.C., Inc. from 1967 until 1998. Mr. Butcher's term expires in 2006.

DONALD G. FISHER

DIRECTOR SINCE 1988

Mr. Fisher, age 75, is the founder of Gap, Inc., a nationwide specialty retail clothing chain. He is a director and Chairman of the Board of Gap, Inc. (he will no longer continue as Chairman after May 2004). He also was Chief Executive Officer of Gap, Inc. from 1969 to November 1995. Mr. Fisher has been a trustee of the Presidio Trust by appointment of former President Clinton since 1997. He is a member of the California State Board of Education and served on the Advisory Council for the Office of the U.S. Trade Representative from 1987 until 1998. Mr. Fisher is a nominee for election this year.

ANTHONY M. FRANK

DIRECTOR SINCE 1993

Mr. Frank, age 72, is Chairman Emeritus and co-founder of Belvedere Capital Partners, a bank holding company and a general partner of an investment fund specializing in financial institutions. He served as Chairman of Belvedere Capital Partners from 1993 until 1999. From 1988 until 1992, Mr. Frank served as Postmaster General of the United States. Mr. Frank is a director of Temple-Inland, Inc., a maker of containers, cardboard products and building products and a provider of financial services; Cotelligent, Inc., an information technology services company; and Bedford Property Investors and Crescent Real Estate Equities, both real estate investment trusts. Mr. Frank previously served as a director of the company from April 1987 until February 1988 and from March 1992 until April 1993. He rejoined the Board in December 1993. Mr. Frank is retiring from the Board effective as of the annual meeting but will serve a three-year term as the first emeritus director of the company. Mr. Frank also has been nominated to serve as a director of Charles Schwab Bank, N.A.

FRANK C. HERRINGER

DIRECTOR SINCE 1996

Mr. Herringer, age 61, has been Chairman of the Board of Transamerica Corporation, a financial services company, since 1996. He served as Chief Executive Officer of Transamerica from 1991 to 1999 and President from 1986 to 1999, when Transamerica was acquired by Aegon N.V. From the date of the acquisition until May 2000, Mr. Herringer served on the Executive Board of Aegon N.V. and as Chairman of the Board of Aegon U.S.A. Mr. Herringer is also a director of AT&T Corporation, a voice, video and data communications company; Unocal Corporation, an oil company (until his term expires in 2004); and Mirapoint, Inc., an Internet message infrastructure equipment developer. He has been nominated as a director of Amgen, Inc., a biotechnology company. Mr. Herringer's term expires in 2005.

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THE BOARD OF DIRECTORS

STEPHEN T. MCLIN

DIRECTOR SINCE 1988

Mr. McLin, age 57, has been Chairman and Chief Executive Officer of STM Holdings LLC, which offers merger and acquisition advice, since 1998. From 1987 until 1998, he was President and Chief Executive Officer of America First Financial Corporation, a finance and investment banking firm, and parent of EurekaBank. Before that, he was an Executive Vice President of Bank of America. Mr. McLin is a director of BCG ValueScience, Inc., a joint venture of the Boston Consulting Group and ValueScience, Inc.; and is an advisory director of Headwaters MB, a merchant bank; and Financial Technology Ventures, a private equity fund. Mr. McLin's term expires in 2005.

DAVID S. POTTRUCK

DIRECTOR SINCE 1994

Mr. Pottruck, age 55, has been the Chief Executive Officer of the company since May 2003. He served as Co-Chief Executive Officer from 1998 until May 2003. He was also the company's Chief Operating Officer from 1994 until September 1998. Mr. Pottruck is currently a director of U.S. Trust Corporation and United States Trust Company of New York (which are subsidiaries of The Charles Schwab Corporation); and Intel Corporation, a maker of microcomputer components and related products. Mr. Pottruck's term expires in 2006.

CHARLES R. SCHWAB

DIRECTOR SINCE 1986

Mr. Schwab, age 66, was the founder of Charles Schwab & Co., Inc. in 1971, and has been its Chairman since 1978. He has been Chairman and a director of The Charles Schwab Corporation since its incorporation in 1986. He also served as Chief Executive Officer from 1986 until January 1998 and Co-Chief Executive Officer from January 1998 until May 2003. Mr. Schwab continues to serve as Chairman of the Board. Mr. Schwab is a director of U.S. Trust Corporation and United States Trust Company of New York; Gap, Inc. (until Mr. Schwab's term on the Gap board expires in May 2004); and Siebel Systems, Inc., a company that provides support for software systems. He is also Chairman of Charles Schwab Bank, N.A., and a trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios, all registered investment companies. Mr. Schwab's term expires in 2005.

GEORGE P. SHULTZ

DIRECTOR SINCE 1997

Dr. Shultz, age 83, has been Professor Emeritus of International Economics at the Graduate School of Business at Stanford University since 1989, and a Distinguished Fellow at the Hoover Institution since 1991. He has held United States government positions as Secretary of Labor (1969-1970), Director of the Office of Management and Budget (1970-1972), Secretary of the Treasury (1972-1974) and Secretary of State (1982-1989). In 1989, he was awarded the Medal of Freedom, the nation's highest civilian honor. Dr. Shultz is a director of Bechtel Group, Inc., a provider of engineering, construction and related management services; Fremont Group, Inc., an investment company; and Gilead Sciences, Inc., a biotechnology company. He is also Chairman of J.P. Morgan Chase's International Advisory Council and Accenture's Energy Advisory Board. He was President of Bechtel Group, Inc. from 1974 to 1982. Dr. Shultz's term expires in 2006.

PAULA A. SNEED

DIRECTOR SINCE 2002

Ms. Sneed, age 56, has been Senior Vice President, Global Marketing Resources, of Kraft Foods, Inc., a national food packaging company, since January 2004. She served as Group Vice President and President of E-Commerce and Marketing Services for Kraft Foods North America, part of Kraft Foods, Inc., from 2000 until January 2004. She joined General Foods Corporation (which later

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THE BOARD OF DIRECTORS

merged with Kraft Foods) in 1977 and has held a variety of management positions, including Vice President, Consumer Affairs; Vice President and President, Foodservice Division; Executive Vice President and General Manager, Desserts Division; Executive Vice President and General Manager, Dinners and Enhancers Division; Senior Vice President, Marketing Service and Chief Marketing Officer; and Executive Vice President, President E-Commerce Division. Ms. Sneed is a member of the board of directors of Airgas, Inc., a national distributor of industrial, medical and specialty gases and related equipment. Ms. Sneed is a nominee for election this year.

ROGER O. WALTHER

DIRECTOR SINCE 1989

Mr. Walther, age 68, has served as Chairman and Chief Executive Officer of Tusker Corporation, a real estate and business management company, since August 1997. He served as Chairman and Chief Executive Officer of ELS Educational Services, Inc., a provider in the United States of courses in English as a second language, between 1992 and 1997. Mr. Walther was President, Chief Executive Officer and a director of AIFS, Inc., which designs and markets educational and cultural programs internationally, from 1964 to February 1993. Since 1985, Mr. Walther has served as Chairman and has been a director of First Republic Bank. Mr. Walther's term expires in 2005.

ROBERT N. WILSON

DIRECTOR SINCE 2003

Mr. Wilson, age 63, served as Vice Chairman of the board of directors of Johnson & Johnson, a manufacturer of health care products and provider of related services for the consumer, pharmaceutical, medical devices and diagnostics market from 1986 until 2003. Mr. Wilson joined Johnson & Johnson in 1964. He was appointed to Johnson & Johnson's executive committee in 1983 and was elected to its board of directors in 1986. Mr. Wilson is also a director of U.S. Trust Corporation and United States Trust Company of New York; Amerada Hess Corporation, an integrated oil and gas company; and Synta Pharmaceuticals Corp., a bio-pharmaceutical company. Mr. Wilson's term expires in 2005.

DAVID B. YOFFIE

DIRECTOR SINCE 2003

Professor Yoffie, age 49, has been the Max and Doris Starr Professor of International Business Administration at the Harvard Business School since 1993 and has been a member of the Harvard University faculty since 1981. Professor Yoffie is also a director of the National Bureau of Economic Research; Intel Corporation; E-Ink Corporation, a provider of electronic ink display technology; and Spotfire, Inc., a provider of analytic applications. Mr. Yoffie is a nominee for election this year.

NUMBER OF DIRECTORS AND TERMS

The authorized number of directors is thirteen, and the company currently has thirteen directors. After Mr. Frank retires at the time of the annual meeting, the authorized number of directors will be twelve. Three directors are nominees for election this year. Nine directors will continue to serve the terms described in their biographies.

Our directors serve staggered terms. This is accomplished as follows:

- each director who is elected at an annual meeting of stockholders serves a three-year term,
- the directors are divided into three classes,
- the classes are as nearly equal in number as possible, and
- the term of each class begins on a staggered schedule.

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The Board held six regular meetings and four special meetings in 2003. Each director attended at least 75% of all Board and applicable committee meetings during 2003, except Robert N. Wilson who had a 73% attendance record. Non-management directors meet regularly in executive session. The Chairman of the Nominating and Corporate Governance Committee presides over the executive sessions of non-management directors. As provided in our Corporate Governance Guidelines, we expect directors to attend the annual meeting of stockholders. In 2003, all of the directors attended the annual meeting.

This table describes the Board's committees.

NAME OF COMMITTEE AND MEMBERS⁽¹⁾	FUNCTIONS OF THE COMMITTEE	NUMBER OF MEETINGS IN 2003
AUDIT	<ul style="list-style-type: none"> reviews the integrity of the financial reporting process 	6
Stephen T. McLin, Chairman ⁽²⁾	<ul style="list-style-type: none"> reviews the qualifications and independence of the independent auditors and performance of the company's internal audit function and independent auditors 	
Nancy H. Bechtle		
Donald G. Fisher ⁽²⁾	<ul style="list-style-type: none"> retains sole authority to select independent auditors, approve audit fees and establish policies and procedures regarding pre-approval of fees for non-audit services 	
Anthony M. Frank ⁽³⁾		
David B. Yoffie ⁽⁴⁾	<ul style="list-style-type: none"> reviews compliance with legal and regulatory requirements 	
COMPENSATION	<ul style="list-style-type: none"> determines the compensation of the Chief Executive Officer and executive officers 	10
Roger O. Walther, Chairman	<ul style="list-style-type: none"> reviews and approves executive compensation philosophy, programs for annual and long-term executive compensation and other executive 	
C. Preston Butcher		

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Frank C. Herringer

programs

George P. Shultz

- has authority to grant options and other equity awards under stock incentive plans and bonus awards under executive incentive plans

Paula A. Sneed

Robert N. Wilson

- has authority to make cash awards under long-term incentive plans

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NAME OF COMMITTEE AND MEMBERS ⁽¹⁾	FUNCTIONS OF THE COMMITTEE	NUMBER OF MEETINGS IN 2003
NOMINATING AND CORPORATE GOVERNANCE	<ul style="list-style-type: none"> identifies individuals qualified to serve on the Board 	4
Frank C. Herringer, Chairman	<ul style="list-style-type: none"> recommends nominees to fill vacancies on the Board and each Board committee and recommends a slate of nominees for election or re-election as directors by the stockholders at the annual meeting to fill the seats of directors whose terms are expiring 	
Nancy H. Bechtle		
C. Preston Butcher		
Donald G. Fisher	<ul style="list-style-type: none"> leads the Board in its annual review of the Board's performance 	
Anthony M. Frank ⁽³⁾	<ul style="list-style-type: none"> develops corporate governance principles, policies and procedures and recommends their adoption by the Board 	
Stephen T. McLin		
George P. Shultz		
Paula A. Sneed		
Roger O. Walther		
Robert N. Wilson		
David B. Yoffie ⁽⁴⁾		

(1) The charters for the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee are available on the company's website at www.abotschwab.com/corpgov.

(2) The Board has determined that Mr. McLin and Mr. Fisher are Audit Committee financial experts and independent under the listing standards of the New York Stock Exchange.

(3) Mr. Frank will no longer serve on these committees after he retires as a director at the time of the annual meeting. Immediately upon his retirement from the Board, Mr. Frank will serve under the Director Emeritus Program approved by the Board of Directors. The Board created the program to avail itself of the continuing participation of certain retiring directors who have made a distinct contribution to the deliberations and actions of the Board. Directors who have attained seventy-two years of age or have served a combined total of ten years on the Board may be considered for appointment as an emeritus director. Emeritus directors serve a term of three years.

- (4) Mr. Yoffie is a member of these committees until November 4, 2004. After that time, Mr. Yoffie for part of his term would not qualify as independent under New York Stock Exchange listing standards and the independence standards that we adopted in 2004. Mr. Yoffie therefore has agreed to resign his membership on these committees effective November 4, 2004, and we will reconsider his membership when he is again eligible under these independence standards.

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THE BOARD OF DIRECTORS

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2003, no member of the Compensation Committee:

- was an officer (or former officer) or employee of the company or any of its subsidiaries, or
- entered into (or agreed to enter into) any transaction or series of transactions with the company or any of its subsidiaries with a value in excess of \$60,000.

During 2003, no executive officer of our company:

- served on the compensation committee (or another board committee with similar functions or, if there was no such committee, the entire board of directors) of another entity where one of that entity's executive officers served on our Compensation Committee or Board, or
- was a director of another entity where one of that entity's executive officers served on our Compensation Committee.

DIRECTOR COMPENSATION

All Directors

All directors are reimbursed their expenses for attending Board and committee meetings.

Employee Directors

Directors who are also employees receive no additional compensation for their service as directors.

Non-Employee Directors

Non-employee directors received the following retainers and fees in 2003:

Non-Employee Director Retainers and Fees

Annual retainer	\$ 45,000
Attendance fee for each Board meeting	\$ 2,800
Attendance fee for each Board committee meeting held on the same day as a Board meeting	\$ 500
Attendance fee for each Board committee meeting held on a day other than a Board meeting	\$ 2,000
Additional annual retainer for service as a Board committee chairperson	\$ 10,000

Non-employee directors also are entitled to receive non-discretionary equity grants under an amendment to the 2001 Stock Incentive Plan, which was approved by stockholders in May 2003. In 2003, those grants were as follows:

Non-Employee Director Equity Grants

Annual grant of options	5,000 options
Annual grant of restricted stock	5,283 shares
Initial grant of options for new directors	5,000 options

Non-employee director equity grants are subject to the following terms and conditions:

- Annual grants of options and restricted stock vest over the three-year period following the date of grant and become 100% vested in the event of the non-employee director's death, disability or retirement. Initial grants of options (when a director joins the board, such as Mr. Wilson and Mr. Yoffie in 2003) are fully vested on the date of the grant.
- The number of shares for the annual grant of restricted stock is determined by dividing \$50,000 by the average of the high and low market prices of company common stock on the grant date.

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THE BOARD OF DIRECTORS

- Each stock option is designated as a non-qualified stock option and has an exercise price equal to the fair market value of common stock on the date of the grant.
- Each stock option expires on the earlier of (1) the date ten years after the date of grant, (2) the date three months after termination of service for any reason other than death, disability or retirement, (3) the date one year after termination of service because of death or disability, or (4) the date two years after termination of service because of retirement.

If the 2004 Stock Incentive Plan is approved by the stockholders, the annual and initial non-discretionary equity grants to non-employee directors will remain the same as provided in the 2001 Stock Incentive Plan.

Non-employee directors also may participate in the Directors' Deferred Compensation Plan. This plan allows them to defer receipt of all or a portion of their retainers and fees and, at their election, either to:

(1) receive stock options that:

- have a fair value on the grant date equal to the amount of the deferred amount (as determined under the Black-Scholes option pricing model),
- have an option exercise price equal to the fair market value of company common stock on the date the deferred amount would have been paid, and
- vest immediately upon grant and generally expire ten years after the grant date,

- or -

(2) invest the deferred amount in shares of the company's common stock to be held in a rabbi trust and distributed to the director (in shares) when he or she ceases to be a director.

DIRECTOR INDEPENDENCE

We have considered the independence of each member of the Board. To assist us in our determination, we reviewed New York Stock Exchange standards and adopted general guidelines for independence.

A director of the company will be considered independent if the director has no material relationships with the company and no other relationships that, in the opinion of the Board, would interfere with the director's exercise of independent judgment. The Board will consider broadly all relevant facts and circumstances regarding a director's relationships with the company as well as these independence guidelines when making a final determination of whether or not a director is independent.

A director with one or more of the following relationships with the company or its subsidiaries will not be considered independent if, within the last three years:

- The director has been an employee or an affiliated person, or an immediate family member has been an executive officer who performs a policy making function.
- The director received, or immediate family member (other than an immediate family member employed in a non-executive officer position) received, more than \$100,000 per year in direct compensation (other than director and committee fees and pension or other forms of deferred compensation for prior service).
- The director has been affiliated with or employed by, or immediate family member has been affiliated with or employed in a professional capacity by, a present or former internal or external auditor.
- The director has been employed, or immediate family member has been employed, as an executive officer of another company where any of the present executives