

STATE STREET CORP
Form DEF 14A
March 15, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant To Section 14(a) of the

Securities Exchange Act Of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

STATE STREET CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

David A. Spina

Chairman and Chief Executive Officer

March 15, 2004

DEAR STOCKHOLDER:

We cordially invite you to attend the 2004 Annual Meeting of Stockholders of State Street Corporation. The meeting will be held in the Enterprise Room at 225 Franklin Street, Boston, Massachusetts, on Wednesday, April 21, 2004, at 10:00 a.m.

Details regarding admission to the meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement.

Your vote is very important. Whether or not you plan to attend the meeting, please carefully review the enclosed proxy statement and then cast your vote, regardless of the number of shares you hold. Please complete, sign, date and mail promptly the accompanying proxy card or for shares held in street name, the voting instruction form, in the return envelope. If your shares are held in street name, as an alternative to returning the voting instruction form you receive, you will have the option to cast your vote by telephone or via the Internet if your voting instruction form includes instructions and a toll-free telephone number or Internet website to do so. In any event, to be sure that your vote will be received in time, please cast your vote by your choice of available means at your earliest convenience.

We look forward to seeing you at the Annual Meeting so that we can update you on our progress. Your continuing interest is very much appreciated.

Sincerely,

PLEASE NOTE: Stockholders should be aware of the increased security at public facilities in Boston. If you plan to attend the meeting, please allow additional time for registration and security clearance. You will be asked to present a valid, picture identification such as a driver's license or passport. If you own your shares through a bank or brokerage account, or through some other nominee, you must also bring proof of ownership (for details, see *Meeting Admission* in the *Notice of 2004 Annual Meeting of Stockholders*). Public parking is no longer available at State Street's headquarters. Public parking facilities available nearby include the Garage at Post Office Square (entrance on Pearl Street opposite the Langham Hotel, formerly Le Meridien Hotel) and the Garage at 150/160 Federal Street (entrance on High Street opposite 99 High Street).

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225 Franklin Street

Boston, MA 02110-2804

NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS

- Time** 10:00 a.m., Eastern Time
- Date** Wednesday, April 21, 2004
- Place** 225 Franklin Street, Fifth Floor, Boston, Massachusetts
- Purpose**
1. To elect five directors;
 2. To vote on a stockholder proposal to exempt the Board of Directors from Massachusetts General Laws, Chapter 156B, Section 50A(a);
 3. To act upon such other business as may properly come before the meeting and any adjournments thereof.
- Record Date** The directors have fixed the close of business on February 27, 2004 as the record date for determining stockholders entitled to notice of and to vote at the meeting.
- Meeting Admission** For security clearance purposes, you will be asked to present a valid, picture identification such as a driver's license or passport. If your State Street stock is held in a brokerage account or by a bank or other nominee, your name does not appear on our list of stockholders, and these proxy materials are being forwarded to you by your broker or nominee. For street-name holders, in addition to a picture identification, you should also bring with you a letter or account statement showing that you were the beneficial owner of the stock on the record date, in order to be admitted to the meeting.
- Voting by Proxy** Please submit a proxy card or, for shares held in street name, voting instruction form, as soon as possible so your shares can be voted at the meeting. You may submit your proxy card or voting instruction form by mail. If your stock is held in street name, you may have the choice of instructing the record holder as to the voting of your shares over the Internet or by telephone. Follow the instructions on the voting instruction form you receive from your broker, bank, or other nominee.

By Order of the Board of Directors,

Edward D. Farley
Clerk

March 15, 2004

State Street Corporation
225 Franklin Street
Boston, MA 02110-2804

STATE STREET CORPORATION

225 Franklin Street, Boston, Massachusetts 02110

PROXY STATEMENT

GENERAL INFORMATION

When are this proxy statement and the accompanying material scheduled to be sent to stockholders?

This proxy statement and accompanying proxy card or, for shares held in street name, voting instruction form, are scheduled to be sent to stockholders beginning on March 15, 2004.

Who is soliciting my vote?

The Board of Directors of State Street Corporation (State Street or the Company) is soliciting your vote for the 2004 Annual Meeting of Stockholders.

What is the record date for the Annual Meeting?

The Company's Board of Directors has fixed the record date for the Annual Meeting as of the close of business on February 27, 2004.

How many votes can be cast by all stockholders?

335,514,378 shares of common stock of State Street are outstanding and entitled to be voted at the meeting. Each share of common stock is entitled to one vote on each matter.

How do I vote?

If you are a registered stockholder, you may vote in person at the Annual Meeting or by proxy without attending the meeting. To vote by proxy, please mark, date, sign, and return the proxy card you received from management with this proxy statement in the return envelope. If you vote by the proxy card you received from management with this proxy statement, your shares will be voted at the meeting in accordance with your

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instructions. If you do not give any instructions, your shares will be voted by the persons named in the proxy card in accordance with the recommendations of the Board of Directors given below.

If your stock is held in the name of a broker, bank or other nominee, please mark, date, sign, and return the voting instruction form you received from your broker or nominee with this proxy statement. As indicated on the form, you may have the choice of voting your shares over the Internet or by telephone. To do so, follow the instructions on the form you received from your broker or nominee.

If you are a registered stockholder and wish to vote in person at the meeting, be sure to bring a form of personal picture identification with you. If your stock is held by a broker, bank or other nominee and you wish to vote in person at the meeting, in addition to picture identification you should both bring an account statement or a letter from the record holder indicating that you owned the shares as of the record date, *and* obtain from the record holder and bring with you a proxy from the record holder issued in your name.

Participants in State Street's Salary Savings Program will receive a voting direction form separately. State Street Bank and Trust Company, as trustee, will vote in accordance with written instructions from the participant and, where no instructions are received, the shares will be voted as directed by State Street.

What are the Board's recommendations on how to vote my shares?

The Board of Directors recommends a vote:

- n FOR election of the five directors (page 9)

- n AGAINST a stockholder proposal to exempt the Board of Directors from Massachusetts General Laws, Chapter 156B, Section 50A(a) (page 26)

Who pays the cost for soliciting proxies by State Street?

State Street will pay the cost for the solicitation of proxies by the Board. That solicitation of proxies will be made primarily by mail. State Street has retained Morrow & Co., Inc. to aid in the solicitation of proxies for a fee of \$15,000, plus expenses. Proxies may also be solicited for management by employees of State Street and its subsidiaries personally, or by telephone, fax or e-mail, without any remuneration to such employees other than their regular compensation. State Street will also reimburse brokers, banks, custodians, other nominees and fiduciaries for forwarding these materials to their principals to obtain authorization for the execution of proxies.

Can I change my vote?

You may revoke your signed proxy to management at any time before it is voted by notifying the Clerk in writing, by returning a signed proxy with a later date, or by attending the meeting and voting in person. If your stock is held in street name, you must contact your broker or nominee for instructions as to how to change your vote.

What vote is required to approve each item?

The five nominees for election as directors who receive a plurality of the shares voted for election of directors shall be elected directors (Item 1). The affirmative vote of 66 2/3% of all outstanding shares is necessary to exempt the Board of Directors from Massachusetts General Laws, Chapter 156B, Section 50A(a) (Item 2).

How is the vote counted?

Votes cast by proxy or in person at the Annual Meeting will be counted by the persons appointed by State Street to act as tellers for the meeting. A majority of the shares entitled to vote at the Annual Meeting constitutes a quorum. The tellers will count shares represented by proxies that withhold authority to vote for a nominee for election as a director only as shares that are present and entitled to vote for purposes of determining the presence of a quorum. None of the withheld votes will be counted as votes for a director. Shares properly voted to abstain on Item 2 are considered as shares that are present and entitled to vote for the purpose of determining a quorum, but will be treated as having voted *against* approval of Item 2.

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If you hold shares through a broker, bank or other nominee, generally the nominee may vote the shares for you in accordance with your instructions. Stock exchange and NASD rules prohibit a broker from voting shares held in a brokerage account on some proposals (a broker non-vote) if the broker does not receive voting instructions from you. Under these rules, a broker may not vote in its discretion on Item 2. Shares that are subject

to a broker non-vote are counted for determining the quorum but as not entitled to vote on the particular matter, so without voting instructions a broker non-vote will occur on Item 2. This will have the effect of these shares being voted *against* approval of Item 2.

Could other matters be decided at the Annual Meeting?

We do not know of any matters that may be properly presented for action at the meeting other than Items 1 and 2. Should any other business come before the meeting, the persons named on the enclosed proxy will have discretionary authority to vote the shares represented by such proxies in accordance with their best judgment.

What happens if the meeting is postponed or adjourned?

Your proxy may be voted at the postponed or adjourned meeting. You will still be able to change your proxy until it is voted.

CORPORATE GOVERNANCE AT STATE STREET

State Street has implemented the corporate governance initiatives under the Sarbanes-Oxley Act of 2002, the related rules of the Securities and Exchange Commission and listing standards of the New York Stock Exchange, thereby strengthening the company's governance and director independence standards already in place. We are intent on maintaining the company's reputation for quality, integrity and the highest ethical standards that has been established over many years.

State Street is a financial holding company whose principal subsidiary is State Street Bank and Trust Company (the Bank). Each of State Street and the Bank is incorporated under the laws of Massachusetts. In accordance with Massachusetts law and State Street's By-laws, the Board of Directors has responsibility for overseeing the conduct of our business. Members of the Board are kept informed about our business by participating in meetings of the Board and committees of the Board, through regular discussions with the Chief Executive Officer, the President and other key members of management, and by reviewing materials provided to them.

State Street has also built upon its long-standing Standard of Conduct for officers and employees, promoting honest and ethical conduct and the avoidance of conflicts of interest, by adopting a Standard of Conduct for Directors. In addition, we adopted a Code of Ethics for Financial Officers (including the Chief Executive Officer and senior financial officers), consistent with the Sarbanes-Oxley Act, to promote honest and ethical conduct, full, fair, accurate, understandable and timely public disclosure, and avoidance of conflicts of interest.

Each of the Executive Committee, the Executive Compensation Committee, and the Nominating and Corporate Governance Committee has approved a charter that establishes its roles and responsibilities and governs its procedures, and each charter has been adopted by the Board. The Examining and Audit Committee's charter, which was previously adopted by the Board, was amended by the Board to conform to the New York Stock Exchange listing standards and to the Sarbanes-Oxley Act, including the establishment of procedures regarding complaints and concerns about auditing and accounting matters, and regarding the appointment, compensation and oversight of the company's external auditors.

State Street's Board of Directors, in its role of overseeing the conduct of our business, is guided by our Corporate Governance Guidelines, which among other things contain categorical standards for determining director independence in accordance with the New York Stock Exchange listing standards. In general, these categorical standards would prohibit a director from qualifying as an independent director if the director (and in certain circumstances, a member of the director's immediate family) has, or in the past three years had, certain relationships or affiliations with State Street, its external or internal auditors, or other companies that do business with State Street (including employment by State Street, receipt of a specified level of direct compensation from State Street other than director fees, and compensation committee interlocks). The categorical standards also provide specified relationships that by themselves, would not be considered to impair independence, including being an executive officer of an entity that has annual payments to, or payments from, State Street equal to or less than the greater of \$1 million, or two percent of the gross annual revenue of the other entity. The full categorical standards are described in the Corporate Governance Guidelines, which are available on State Street's website at www.statestreet.com and will be made available without charge by State Street to any stockholder who requests them. The Board has determined that each of the 14 non-management directors (Messrs. Albright, Hill, and Walsh and Messrs. Burnes, Casner, Darehshori, Goldstein, Gruber, LaMantia, Poe, Sergel, Skates,

Summe, and Weissman) meet the categorical standards for independence under the Guidelines, has no material relationship with the Company, and satisfies the qualifications for independence under the Securities Exchange Act of 1934 (the Exchange Act).

In addition to the Guidelines, the charters for the Executive Committee, Executive Compensation Committee, Nominating and Corporate Governance Committee, and Examining and Audit Committee; the Standard of Conduct for officers and employees; the Standard of Conduct for Directors; and the Code of Ethics for Financial Officers are also available on State Street's website at www.statestreet.com and will be made available without charge by State Street to any stockholder who requests them.

The non-management directors meet in executive session at least quarterly. Robert E. Weissman is the Presiding Director of the non-management directors. State Street has established a procedure for communicating directly with the Presiding Director regarding concerns about State Street or its conduct, including complaints about accounting, internal accounting controls or auditing matters. The contact information is available on State Street's website at www.statestreet.com. The Presiding Director may forward to the Examining and Audit Committee, or other group, any concerns the Presiding Director receives for appropriate review, and will report periodically to the non-management directors as a group regarding concerns received.

State Street has a regularly scheduled Board of Directors meeting that follows the annual stockholders' meeting, and all directors who are available to attend the Board meeting are expected to attend the stockholders' meeting that precedes it. In 2003, of the 15 individuals who were nominees at the annual meeting or whose terms extended past the annual meeting, all were present at the stockholders' meeting.

State Street has established and maintains internal controls and procedures for financial reporting designed to ensure the integrity and accuracy of the financial statements and control of its assets, and has established and maintains disclosure controls and procedures designed to ensure that State Street is able to timely record, process and report the information required for public disclosure. State Street is dedicated to maintaining the high standards of financial accounting and reporting that we have established over many years of service to stockholders, employees, and clients.

Meetings of the Board

During 2003 the Board of Directors held 7 meetings and each of the directors attended 75% or more of the total of all meetings of the Board and of the committees of the Board on which each director served during the year. Each member of the Board is also a member of the Board of Directors of the Bank. The Board of Directors of the Bank held 9 meetings during 2003. Each member of State Street's Executive Committee and Examining and Audit Committee is also a member of the corresponding committee of the Bank, and members customarily hold joint meetings of both committees.

Committees of the Board of Directors

The Board of Directors has the following committees to assist it in carrying out its responsibilities:

EXECUTIVE COMMITTEE. The Executive Committee is authorized to exercise all the powers of the Board of Directors that may be legally delegated to it by the Board in the management and direction of the business and affairs of State Street during the intervals between meetings of the Board, including the review of

policies for the extension of credit and management of risk, investment of assets and financial management, and monitoring activities under these policies. The Committee reports periodically to the Board. Its members are Truman S. Casner, Chair; David P. Gruber; Charles R. LaMantia; Ronald E. Logue; and David A. Spina. During 2003, the Committee held 13 meetings.

The Committee has a written charter, which is available on the Company's website, at www.statestreet.com.

EXAMINING AND AUDIT COMMITTEE. The Examining and Audit Committee has direct responsibility for the appointment, compensation, retention, and oversight of the independent auditors for State Street, and sole authority to establish pre-approval policies and procedures for audit and non-audit engagements with the independent auditors. The Committee also oversees the operation of a comprehensive system of internal controls designed to ensure the integrity of State Street's financial statements and reports and compliance with laws, regulations and corporate policies; oversees the independent auditor's qualifications, performance and independence, and monitors communications with the independent auditor and bank regulatory authorities; and monitors the performance of the internal audit function at State Street. Specific functions and responsibilities of the Committee are set forth in the revised charter of the Committee, adopted by the Board, which is attached as Appendix A to this proxy statement. The Committee's members are Charles R. LaMantia, Chair; Tenley E. Albright; David P. Gruber; and Ronald L. Skates. During 2003, the Committee held 12 meetings.

The Board of Directors has determined that the Committee consists entirely of directors who meet the independence requirements of the New York Stock Exchange listing standards and the rules and regulations under the Exchange Act. Further, all of the members of the Committee are financially literate, based upon their education and experience, as such qualification under the New York Stock Exchange listing standards is interpreted by the Board. The Board has determined, based upon education and experience as a principal accounting or financial officer or public accountant, or experience actively supervising a principal accounting or financial officer or public accountant, that three members of the Committee, Messrs. Gruber, LaMantia, and Skates, satisfy the definition of audit committee financial expert as set out in the rules and regulations under the Exchange Act, and have accounting or related financial management expertise as such qualification under the New York Stock Exchange listing standards is interpreted by the Board.

The Committee has a written charter, which is attached as Appendix A and is also available on the Company's website, at www.statestreet.com.

EXECUTIVE COMPENSATION COMMITTEE. The Executive Compensation Committee reviews, evaluates and administers policies that relate to the compensation system for State Street's executive officers and other incentive programs of State Street and reviews and approves, together with the other independent directors, the Chief Executive Officer's compensation in light of approved corporate goals and objectives. Its members are Robert E. Weissman, Chair; Nader F. Darehshori; Linda A. Hill; and Richard P. Sergel. None of these individuals is or has been an officer or employee of State Street or the Bank. The Board of Directors has determined that the Committee consists entirely of directors who meet the independence requirements of the New York Stock Exchange listing standards and the rules and regulations under the Exchange Act. During 2003, the Committee held 6 meetings.

The Committee has a written charter, which is available on the Company's website, at www.statestreet.com.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE. The Nominating and Corporate Governance Committee's principal responsibilities are to assist the Board in identifying and recommending nominees for directors of State Street, and to provide leadership in shaping the corporate governance of the Company, including the Corporate Governance Guidelines applicable to the Company. Its current members are Arthur L. Goldstein, Chair; Nader F. Darehshori; Alfred Poe; Gregory L. Summe; and Diana Chapman Walsh. The Board of Directors has determined that the Committee consists entirely of directors who meet the independence requirements of the New York Stock Exchange listing standards and the rules and regulations under the Exchange Act. During 2003, the Committee held 4 meetings.

The Committee has a written charter, which is available on the Company's website, at www.statestreet.com.

In carrying out its responsibilities of finding the best qualified candidates for directors, the Committee will consider proposals from a number of sources, including recommendations for nominees from security holders submitted upon written notice to the Chair of the Nominating and Corporate Governance Committee, c/o the Office of the Secretary of State Street Corporation, 225 Franklin Street, Boston, Massachusetts 02110 (facsimile number (617) 664-4747). The Committee seeks to identify individuals qualified to become directors, consistent with the Board's criteria for director candidates. That criteria covers those individuals who have substantial achievement in their personal and professional pursuits and whose talents, experience, and integrity would be expected to contribute to the best interests of the Company and to long-term stockholder value. Without limitation, the Committee considers those individuals who have a general management focus, preferably serve as CEOs of public companies, have a specialization in technology or finance, have global or international business experience, and contribute to the diversity of the Board.

The Committee's process for identifying and evaluating candidates includes actively seeking to identify qualified individuals by reviewing lists of possible candidates, such as CEOs of public companies, leaders of technology, finance, or other industries, or leaders of academia; and considering proposals from a number of sources, such as from members of the Board, members of management, employees, stockholders, and industry contacts. While the Committee has not typically used outside third-party search firms, its charter grants it authority to retain such a firm to assist it. Upon identifying a possible candidate, from whatever source, the Committee makes an initial evaluation as to whether the individual would be expected to qualify under the Board's general criteria for directors. A possible candidate who the Committee feels is an individual who could qualify under the general criteria is then further evaluated through a process which may include obtaining and examining the individual's resume, speaking with the person who has recommended the individual, speaking with others who may be familiar with the individual, interviews by members of the Committee with the individual, discussion at the Committee level of the individual's possible contribution to the Company, and, if appropriate, voting on the individual as a candidate. There are no differences in the manner in which the Committee evaluates possible nominees for directors based on whether an individual is recommended by a security holder or otherwise.

Kenneth F. Burnes is a nominee for election as a director for the first time at this meeting. The Committee recommended Mr. Burnes to the Directors for appointment to the Board in October, and as a candidate for election by the stockholders at this meeting, after evaluating his candidacy consistent with the Committee's normal process. Mr. Burnes' name was first identified by the Committee in a review of a list of executive officers of public companies in the metropolitan Boston area. One of the non-management Directors, who serves on the board of Cabot Corporation, and Mr. Spina each identified Mr. Burnes from the list and recommended Mr. Burnes as a possible candidate for consideration. Following this identification, the Committee made an initial

determination that Mr. Burnes was a possible candidate who would be expected to qualify under the Board's general criteria for directors. Upon this determination, the Committee commenced its normal process regarding his candidacy. Included in this process was a complete review of his resume, discussions of his candidacy with outside contacts, and personal interviews by members of the Committee with Mr. Burnes. Following consideration spanning a period of approximately seven months, the Committee was unanimous in recommending Mr. Burnes to the Directors.

Compensation of Directors

Directors who are also employees of State Street or the Bank do not receive any compensation for serving as directors or as members of committees. For the period April 2003 through March 2004, directors who are not employees of State Street or the Bank received an annual retainer of \$50,000, payable at their option in shares of common stock of State Street or in cash, plus a fee of \$1,500 for each meeting of the Board of Directors and each committee meeting attended, as well as travel accident insurance and reimbursement for travel expenses, and an award of 2,672 shares of deferred stock payable after the director leaves the Board or retires. For this period, all outside directors elected to receive their annual retainer in shares of common stock. The directors may elect to defer either 50% or 100% of all fees and compensation payable during any calendar year pursuant to State Street's Deferred Compensation Plan for Directors. Three directors have elected to defer compensation under the plan.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires State Street's directors and certain of its officers to send reports of their ownership and of changes in ownership of the common stock to the Securities and Exchange Commission and the New York Stock Exchange. Based on State Street's review of the reports it has received, State Street believes that all of its directors and officers complied with all reporting requirements applicable to them with respect to transactions in 2003.

Related Transactions

During 2003 certain directors and executive officers of State Street, and corporations and other entities associated with such directors, were customers of the Bank and its affiliates and had ordinary business transactions with the Bank and its affiliates. The transactions include loans and commitments to corporations associated with certain directors made in the ordinary course of the Bank's business and on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with unrelated persons with no more than normal risk of collection and which are made in compliance with applicable law, including Regulation O and Regulation W of the Board of Governors of the Federal Reserve System and Section 13(k) of the Exchange Act. No event of default has occurred under any such loan. From time to time the law firm of Ropes & Gray LLP provides legal services to State Street. Mr. Casner, a director of State Street, is of counsel to that firm. It is anticipated that the firm will continue to provide legal services in the current year.

ELECTION OF DIRECTORS

The Board of Directors unanimously recommends that you vote

FOR

each of the nominees for director. (Item 1 on your proxy card)

The State Street Board consists of 16 members. Of the 16 directors currently in office, 14 are non-management directors and two are executive officers of State Street. Each of the non-management directors is an independent director under the definition of the New York Stock Exchange listing standards. In accordance with Massachusetts law and State Street's By-laws, the Board is divided into three classes of directors. Each class has a term of three years. Each director serves until his or her term expires and until his or her successor is duly elected and qualified. The Board determines the number of directors. Alfred Poe, a Class II director, will be retiring from the Board at the expiration of his current term.

Pursuant to the By-laws, at a meeting on December 18, 2003 the Board of Directors fixed the number of directors at 15, effective at the time of the 2004 Annual Meeting. Five directors are to be elected at the meeting as Class II directors. Each of the nominees for election as a Class II director is currently a director. Kennett F. Burnes was appointed a Class II director by the Board at its October 16, 2003 meeting.

Unless contrary instructions are given, shares represented by proxies solicited by the Board of Directors will be voted for the election of the five nominees listed below as directors. We have no reason to believe that any nominee will be unavailable for election at the Annual Meeting. In the event that one or more nominees is unexpectedly not available to serve, proxies may be voted for another person nominated as a substitute by the Board, or the Board may reduce the number of directors to be elected at the Annual Meeting. Information relating to each nominee for election as director and for each continuing director, including his or her period of service as a director of State Street, principal occupation and other biographical material is shown below.

DIRECTORS TO BE ELECTED AT THE 2004 ANNUAL MEETING

Class II Nominees with Terms Expiring in 2007

KENNETT F. BURNES

Director since 2003

Chairman, President and Chief Executive Officer of Cabot Corporation, a global specialty chemicals company. He has been Chief Executive Officer of Cabot Corporation since 2001 and President since 1995. Prior to joining Cabot Corporation in 1987, Mr. Burnes, age 61, was a partner at the Boston-based law firm of Choate, Hall & Stewart, where he specialized in corporate and business law for nearly 20 years. He is a director of Cabot Corporation and J. K. Adams Co., Inc., and is a member of the Dana Farber Cancer Institute's Board of Trustees. Mr. Burnes is also Chairman of the Board of Trustees of the Schepens Eye Research Institute. Mr. Burnes holds both an LL.B. and B.A. degree from Harvard University.

DAVID P. GRUBER

Director since 1997

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Retired Chairman, Chief Executive Officer and Director of Wyman-Gordon Company, a manufacturer of forging, investment casting and composite airframe structures for the commercial aviation, commercial power and defense industries. Mr. Gruber, age 62, joined Wyman-Gordon in 1991 and retired in 1999. He is a

Distinguished Life Member of the Materials Information Society (ASM), chairman of the Worcester Polytechnic Institute Mechanical Engineering Advisory Committee, and a member of the boards of directors of Novelos Therapeutics Inc. and Worcester Municipal Research Bureau. He has a B.S. degree from Ohio State University.

LINDA A. HILL

Director since 2000

Wallace Brett Donham Professor of Business Administration at Harvard University. Dr. Hill, age 47, is unit head, Organizational Behavior Unit, and faculty chair, Leadership Initiative. She is a member of the board of directors of Cooper Industries, the boards of trustees of The Rockefeller Foundation, Bryn Mawr College and the Children's Museum, Boston, and the board of overseers of the Beth Israel Deaconess Medical Center. Dr. Hill received an A.B. degree in psychology from Bryn Mawr College, an M.A. in educational psychology from the University of Chicago, and a Ph.D. in behavioral sciences from the University of Chicago.

CHARLES R. LAMANTIA

Director since 1993

Retired Chairman and Chief Executive Officer of Arthur D. Little, Inc. He served as Chief Executive Officer of Arthur D. Little, Inc. from 1988 to 1999. Dr. LaMantia, age 64, is a member of the advisory board of the Carroll School of Management of Boston College and WGBH Public Broadcasting, and is a member of the corporation of the Woods Hole Oceanographic Institution. Dr. LaMantia received B.A., B.S., M.S. and Sc.D. degrees from Columbia University, and attended the Advanced Management Program at Harvard Business School. He served on active duty as an officer in the United States Navy.

ROBERT E. WEISSMAN

Director since 1989

Chairman, Shelburne Investments, a private investment company that works with emerging companies in the United States and Europe. Mr. Weissman, age 63, was Chairman and Chief Executive Officer of IMS Health Incorporated, a provider of information to the pharmaceutical and healthcare industries, from 1997 to 2000 and prior to that was Chairman and Chief Executive Officer of Cognizant Corporation. He is a director of Pitney Bowes, Inc. and Cognizant Technology Solutions Corporation, and a member of the advisory boards of Broadview Capital and Affinova, Inc. He is Vice Chairman of the board of trustees of Babson College. Mr. Weissman received a degree in Business Administration and an honorary Doctor of Laws degree from Babson College.

CONTINUING DIRECTORS WITH TERMS EXPIRING IN 2005

Class III

TENLEY E. ALBRIGHT, M.D.

Director since 1993

Physician and surgeon. Dr. Albright, age 68, is Chairman of Western Resources, Inc., a real estate holding company. Dr. Albright's concentration in medicine and health services stems from her specialty of general surgery over 23 years. She is a faculty member and lecturer at Harvard Medical School and is on the surgical staff of New England Baptist Hospital. Dr. Albright is consultant to and formerly chairman of the Board of Regents of the National Library of Medicine at National Institutes of Health. She is a director of West Pharmaceutical Services, Inc. and the Whitehead Institute for Biomedical Research, and a member of the corporation of Woods Hole Oceanographic Institution. Dr. Albright graduated from Harvard Medical School after attending Radcliffe College, and has received eight honorary degrees.

NADER F. DAREHSHORI

Director since 1990

President, Chief Executive Officer and Chairman of Cambium Learning, Inc., an educational publishing company. Mr. Darehshori, age 67, was Chairman, President and Chief Executive Officer of Houghton Mifflin Company, publisher, from 1990 to 2000. Mr. Darehshori is a director of Aviva USA Corporation and President of the Boston Public Library Foundation. He is a trustee of Wellesley College and the Dana-Farber Cancer Institute, and a director of the Tanenbaum Center for Interreligious Understanding. Mr. Darehshori received a B.A. degree from the University of Wisconsin.

RONALD E. LOGUE

Director since 2000

President and Chief Operating Officer of State Street since December 2001. He was elected Vice Chairman in 1999 and Chief Operating Officer in May 2000. Mr. Logue, age 58, headed State Street's Global Investor Services Group from 1992 to 1999. He is responsible for managing global operations and oversight of State Street's services for institutional investors worldwide comprising its investment servicing business which includes custody, fund accounting, risk management, investment operations outsourcing and trading services, securities finance and research and analytics. Mr. Logue joined State Street in 1990 as head of the Mutual Fund Custody Division. Mr. Logue is a director of the Metropolitan Boston Housing Partnership. He received B.S. and M.B.A. degrees from Boston College.

GREGORY L. SUMME

Director since 2001

Chairman, Chief Executive Officer and President of PerkinElmer, Inc., a global technology company focused in the businesses of life and analytical sciences, optoelectronics and fluid sciences. Prior to joining PerkinElmer in 1998, Mr. Summe, age 47, was with AlliedSignal, serving successively as the president of general aviation avionics, aerospace engines, and the automotive products group. Prior to that he was general manager of commercial motors at General Electric and a partner at McKinsey & Co. Mr. Summe is a trustee of the Fessenden School and a member of the Singapore-US Business Council. He holds B.S. and M.S. degrees in electrical engineering from the University of Kentucky and the University of Cincinnati, and an M.B.A. from the Wharton School of the University of Pennsylvania.

DIANA CHAPMAN WALSH

Director since 1997

President of Wellesley College. Prior to becoming President of Wellesley College in 1993, Dr. Walsh, age 59, was Professor and Chairman, Department of Health and Social Behavior, at the Harvard School of Public Health. She is the chair of the board of directors of the Consortium on Financing Higher Education and is a trustee of Amherst College. Dr. Walsh received a B.A. degree from Wellesley College, M.S. and Ph.D. degrees from Boston University, and honorary doctoral degrees from Boston University, American College of Greece, and Northeastern University.

CONTINUING DIRECTORS WITH TERMS EXPIRING IN 2006

Class I

TRUMAN S. CASNER

Director since 1990

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Of counsel to the law firm of Ropes & Gray LLP. Mr. Casner, age 70, received an A.B. degree from Princeton University in 1955 and an LL.B. from Harvard Law School in 1958. He served as law clerk to Chief

Justice Wilkins of the Massachusetts Supreme Judicial Court and joined Ropes & Gray in 1959, becoming a partner in 1968 and of counsel in 2002. Mr. Casner is a trustee *emeritus* of the Museum of Science, Boston, a trustee of the New Bedford Whaling Museum, and a corporation member and past president of Belmont Hill School. He is a member of the American Law Institute.

ARTHUR L. GOLDSTEIN

Director since 1995

Chairman of Ionics, Incorporated, an international company involved in the purification and treatment of water. He was Chief Executive Officer of Ionics, Incorporated from 1971 to 2003. Mr. Goldstein, age 68, is a director of Cabot Corporation. He is a member of the National Academy of Engineering and its Industry Advisory Board. He is a trustee of California Institute of Technology, Dana-Farber/Partners Cancer Care and Massachusetts General Physicians Organization, Inc. and chairman of its compensation committee, co-chair of the Committee on Industrial Relations and Ventures of Partners HealthCare, and a director of Partners HealthCare System, Inc. Mr. Goldstein received a B.S. degree in chemical engineering from Rensselaer Polytechnic Institute, an M.S. in chemical engineering from the University of Delaware, and an M.B.A. from Harvard Business School.

RICHARD P. SERGEL

Director since 1999

Chairman, Chief Executive Officer and Director of National Grid U.S.A., an electric and gas utility and the successor to New England Electric System (NEES), since 1999. Mr. Sergel, age 54, joined NEES in 1978. He is a director of National Grid Transco plc, New England Power Company, Edison Electric Institute, Jobs for Massachusetts and the Greater Boston Chamber of Commerce, and a trustee of the Worcester Art Museum. Mr. Sergel received a B.S. degree from Florida State University, an M.S. from North Carolina University, and an M.B.A. from the University of Miami. He served in the United States Air Force.

RONALD L. SKATES

Director since 2002

Private investor. Mr. Skates, age 62, joined Data General Corporation, a computer and storage manufacturing company, in 1986 as senior vice president of finance and administration. He also served as chief financial officer in 1987, was elected a director and executive vice president and chief operating officer in 1988, and in 1989 he was made president and chief executive officer. He retired in 1999, when EMC acquired the company. Mr. Skates began his career at Price Waterhouse as a certified public accountant and was an audit partner for 10 years. He is a director of Cabot Microelectronics, Courier Corporation, Gilbane Corporation, and Raytheon Company. Mr. Skates is a trustee of The Massachusetts General Hospital, Massachusetts General Physicians Organization, Inc., Peabody Essex Museum, and The Cotting School. Mr. Skates holds bachelor and M.B.A. degrees from Harvard University.

DAVID A. SPINA

Director since 1989

Chairman and Chief Executive Officer of State Street since January 1, 2001. Prior to that date Mr. Spina, age 61, was President and Chief Executive Officer. He joined State Street in 1969 and has held a variety of positions with State Street, including chief operating officer, chief financial officer and treasurer. He is a director of the United Way of Massachusetts Bay, a director of Jobs for Massachusetts, a corporator of the Dana Hall School and chairman *emeritus* of the Massachusetts Housing Investment Corporation. Mr. Spina holds a B.S. degree from the College of the Holy Cross and an M.B.A. from Harvard University. He was an officer in the United States Navy from 1964 to 1969, serving a tour of duty in Vietnam.

BENEFICIAL OWNERSHIP OF SHARES**Management**

The table below sets forth the number of shares of common stock of State Street beneficially owned (as determined under the rules of the Securities and Exchange Commission) by each director, the chairman and chief executive officer and the four other most highly compensated executive officers, and the group consisting of those persons and 1 other current executive officer, as of the close of business on February 2, 2004 based on information furnished by each person. None of the individuals owned beneficially as much as 1% of the outstanding shares of common stock. The group in the aggregate beneficially owned 1.442% of the outstanding shares.

<u>Name</u>	<u>Amount and Nature of Beneficial Ownership(1)</u>
Tenley E. Albright, M.D.	67,451(2)(7)
Kennett F. Burnes	4,337(7)
Truman S. Casner	45,822(4)(7)
Nader F. Darehshori	26,035(7)
Arthur L. Goldstein	21,405(7)
David P. Gruber	21,992(7)
Timothy B. Harbert	513,271(3)(7)
Linda A. Hill	8,895(7)
Charles R. LaMantia	28,917(5)(7)
Ronald E. Logue	724,759(3)(7)
Alfred Poe	20,298(7)
Edward Resch	23,500(3)
Richard P. Sergel	11,904(7)
Ronald L. Skates	7,724(7)
David A. Spina	2,627,829(3)(6)
Gregory L. Summe	8,171(7)
John R. Towers	508,038(3)(7)
Diana Chapman Walsh	16,278(7)
Robert E. Weissman	44,092(7)
All of the above and 1 other current executive officer, as a group (20 persons)	4,831,300(3)(7)

- (1) Information in this table does not include options to acquire common stock, but does include shares of common stock which have not been issued but which are subject to options, which either are currently exercisable or will become exercisable within 60 days of February 27, 2004.
- (2) Includes 13,917 shares held in trust for a family member pursuant to a trust of which Dr. Albright is a co-trustee and 21,371 shares owned by a family member, with respect to all of which shares she disclaims beneficial ownership.
- (3) Includes shares which the individual has the right to acquire ownership through the exercise of those stock options which are exercisable within 60 days of February 27, 2004, as follows: Mr. Harbert, 283,167; Mr. Logue, 619,134; Mr. Resch, 9,500; Mr. Spina, 1,621,467; Mr. Towers, 487,200; and the group, 3,105,175.
- (4) Includes 8,000 shares as to which Mr. Casner has sole investment power and shared voting power.

- (5) Includes 4,000 shares as to which Dr. LaMantia has shared voting power and investment power.
- (6) Includes 84,000 shares owned by members of Mr. Spina's family, with respect to all of which shares he disclaims beneficial ownership.
- (7) Includes notional shares in deferred stock accounts, as follows: Dr. Albright, 11,195; Mr. Burnes, 860; Mr. Casner, 12,429; Mr. Darehshori, 12,429; Mr. Goldstein, 10,117; Mr. Gruber, 10,223; Mr. Harbert, 212,239; Dr. Hill, 5,327; Dr. LaMantia, 11,195; Mr. Logue, 37,750; Mr. Poe, 10,700; Mr. Sergel, 11,122; Mr. Skates, 3,628; Mr. Summe, 7,356; Mr. Towers, 3,524; Dr. Walsh, 8,387; Mr. Weissman, 18,284; and the group, 386,765.

REPORT OF THE EXECUTIVE COMPENSATION COMMITTEE

The Executive Compensation Committee of the Board of Directors (the Committee) furnishes the following report on Executive Compensation.

Policy

State Street combines information technology with financial expertise to provide sophisticated investors with an integrated range of products and services spanning the investment cycle. Our goal is to be the leading company serving sophisticated investors worldwide. The executive compensation program, by providing competitive pay and aligning executive compensation with our business strategy, is designed to attract and retain superior executives, to focus these individuals on achieving State Street's objectives, and to reward executives for meeting specific short-term and long-term performance targets. The executive compensation program places emphasis on challenging performance goals, business growth, and sustainable real growth in earnings per share. By including stock-based compensation plans as a major part of the compensation strategy, we link closely the goals of stockholders and executives. Thirty-three executives participated in the executive compensation program in 2003. The Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Vice-Chairman, and the Executive Vice Presidents were considered executives for this purpose.

The principles of the executive compensation strategy are applied throughout State Street. Because executives have the greatest opportunity to influence long-term performance, a greater proportion of their compensation is linked to the achievement of long-term strategic and financial goals. Other individuals who manage business units or have corporate functional or staff responsibilities have a significant opportunity to influence State Street's results, and a sizable portion of their compensation is related to the achievement of financial goals of both the respective business unit and State Street as a whole. In addition to executives, officers and managers who make significant contributions participate in the equity incentive programs and in a variety of annual incentive plans.

The Committee is comprised entirely of independent, non-employee directors, each of whom also qualifies as an outside director for purposes of Section 162(m) of the Internal Revenue Code. The Committee is responsible for setting and administering policies that relate to executive compensation, equity incentive programs, and other incentive programs. The Committee, on an annual basis, reviews and evaluates the executive compensation program.

The Committee met 6 times in 2003 and provided reports to the Board of Directors about its activities at each of these meetings. In conjunction with its annual review and evaluation of the executive compensation program, the Committee engaged its own independent compensation consultant. The consultant worked for the

Committee in reviewing the executive compensation program, in reviewing a reference group of public companies against which State Street's executive compensation and financial performance were compared, and in considering modifications to existing plans. The Committee, with assistance from its independent consultant, validated this group of companies as a reference group against which to compare compensation practices and competitive levels of compensation. This group includes large U.S. bank holding companies and U.S.-based financial services companies.

The Committee believes that State Street's most direct competitors for executives are not necessarily the same companies that would be included in a peer group established to compare stockholder returns. Therefore, the reference companies used for comparative compensation purposes contain some overlap with, but are not identical to, the companies in the S&P Financial Index used for performance comparison under Stockholder Return Performance Presentation in this proxy statement.

The elements of the executive compensation program currently consist of base salary, annual bonus, performance awards, stock options, deferred stock awards and restricted stock awards. These are integrated components where salary and bonus reflect one-year results, performance awards reflect two-year results, and stock options, deferred stock awards and restricted stock awards reflect long-term stock price appreciation. As a result of its 2003 review, the Committee has determined that the fundamental elements of this compensation plan are appropriate for a program that is intended to support State Street's business strategy, provide competitive compensation, and create value for stockholders. The Committee's policies with respect to each of these elements, including the basis for the compensation reported for 2003 to Mr. Spina, are discussed below.

Base Salaries

The Committee recommended to the Board of Directors the base salary of Mr. Spina and Mr. Logue, both of whom were members of the Board of Directors during 2003, and reviewed the salaries of the other executives. Base salaries for executives are determined by subjectively evaluating the responsibilities of the position, the strategic value of the position to State Street, and the experience and performance of the individual. No specific formula is used to set base salaries. The Committee has determined, however, that to be competitive it is appropriate for State Street's executive salary levels to be near the median of the reference group. Annual adjustments, if any, to base salary levels are determined by reviewing market compensation data and subjectively considering the overall scope of each position and its strategic importance, the performance of State Street, an evaluation of the individual's performance, and the length of time since the individual's last salary adjustment. The Committee also considers the range of salary increases, which are awarded to all employees.

With respect to the base salary granted to Mr. Spina for 2003, the Committee reviewed all of the factors noted above, including data supplied by the compensation consultant on market levels of pay for the chief executive officer at companies in the reference group and the performance of State Street, specifically earnings per share and return on equity. No particular weight was applied to any single factor in making the Committee's determination. As compared to salaries paid to the chief executive officer position in the reference group, Mr. Spina's salary was slightly above median.

Annual Bonuses

Executives are eligible for annual cash bonuses under the provisions of the Senior Executive Annual Incentive Plan, which was approved at the 2001 annual meeting of stockholders. Each year the Committee assigns to each executive a minimum, target, and maximum bonus award opportunity, stated as a percent of

salary. The levels of bonus opportunity assigned to each executive are determined by reviewing competitive compensation data supplied by the compensation consultant, the level of responsibility of each executive, and the strategic importance of the executive's position. The Committee reviews State Street's revenue growth, as well as earnings per share growth and return on equity performance. In establishing performance targets for the annual incentive plan, the Committee considers this data along with State Street's long-term financial goals, the specific financial goals for the following year, and the business environment in which State Street is operating. The Committee then establishes the measures that will be used (based on the measures available under the Senior Executive Annual Incentive Plan) and the specific performance targets at which various levels of bonus will be earned. At its December 2002 meeting, the Committee assigned a range of bonus opportunity for Mr. Spina for 2003 at a minimum award of \$0, and a maximum award of \$5,000,000. The actual level of bonus earned is based upon achievement of specific predetermined performance targets established by the Committee.

The 2003 performance targets established by the Committee were based on reported earnings per share. The Committee established a performance/payout schedule, which identified various objective earnings per share levels at which specific awards would be earned.

At its meeting in March 2004, the Committee certified that specific performance goals had been achieved and approved a total bonus payment for 2003 of \$1,200,000 for Mr. Spina. Bonuses for other participants in the plan receiving bonuses totaled \$1,670,000 for the year.

Federal law and regulations provide that in order to qualify for a tax deduction (see Tax Law at the end of this report), compensation in excess of \$1,000,000 to top executive officers of a public corporation must qualify as performance-based compensation. In order to qualify as exempt performance-based compensation, bonuses must be earned under a plan, the material terms of which have been approved by stockholders. In general, the performance measures under such a plan must be re-approved by stockholders every five years. The Senior Executive Annual Incentive Plan was last approved by stockholders at the 2001 Annual Meeting.

Performance Awards/Equity Awards

Longer term compensation is provided to executives in the form of both performance awards and equity awards under the terms approved in the 1997 Equity Incentive Plan.

Performance Awards. Performance awards represent a contingent right to a cash payment, based upon the price of State Street's stock, in the event State Street meets specified performance goals over a two-year time period following the grant. Performance awards are granted to executives every year. Performance award payments, if any, are made after the completion of the two-year performance cycle associated with each grant.

The Committee granted performance awards totaling 464,000 units under the 1997 Equity Incentive Plan to the executive group in December 2003, including six additional executives promoted in December 2003. This grant included an award of 104,700 units to Mr. Spina. All of these grants have a two-year performance period covering the years 2004 and 2005. The Committee established performance targets for the 2004-2005 performance period for these grants, tied to a combination of financial measures, based upon return on equity and earnings per share.

After the end of the two-year performance period ending December 31, 2005, and subject to review and certification of performance results by the Committee, a cash payment will be calculated based upon the number of performance awards earned, if any, multiplied by the market value of State Street's common stock at the end

of the performance period. In this way, the final cash value of the performance awards relates directly to both corporate financial performance in determining how many awards are earned and stock price appreciation in determining the cash value of the units earned.

Stock Options. Stock options are granted to executives annually, although the Committee has the authority to grant options at any time and has in the past made additional grants in conjunction with the assumption of new responsibilities by members of the executive group. The Committee selects the executives to receive options and sets the size of option awards based upon subjective factors, including: the perceived importance of the executive's contribution to the success of State Street, similar to the subjective factors considered in setting base salary; a target level of long-term incentive opportunity with respect to the reference group, based upon data supplied by the compensation consultant; and the amount of and annual value of the two-year performance awards which were granted to the respective executive in that year or in the prior year. The exercise price of options is equal to the market price of the shares at the time of the grant. The options have a ten-year life and become exercisable in three equal annual installments starting at the second anniversary of the grant date. Because stock options are granted at market price, the value of the stock options is dependent upon an increase in the price of State Street stock. The Committee views stock option grants as a part of the executive's annual total compensation package. The amount of stock options outstanding at the time of a new grant or granted in prior years does not serve to increase or decrease the size of the new grant.

At its meeting in December 2003 the Committee granted Mr. Spina options to purchase 308,200 shares, based upon a review of all of the factors noted above; no particular weight was applied to any single factor in making the Committee's determination.

Deferred and Restricted Stock. Deferred and restricted stock awards are used to recruit, motivate, and retain high-potential individuals. Typically, deferred and restricted stock awards are made to individuals who are not members of the executive group. However, the Committee may grant deferred and restricted stock to members of the executive group as part of a recruitment package or based upon subjective factors to reward what is considered to be exceptional performance or for retention purposes. Three members of the executive group other than Mr. Spina received deferred stock under the 1997 Equity Incentive Plan in 2003. The awards were made without payment from the recipients.

Tax Law

Section 162(m) of the Internal Revenue Code generally precludes State Street from taking federal income tax deductions for compensation in excess of \$1,000,000 per year for the chief executive officer and any of its four other highest paid executive officers, if those individuals are employed as officers on the last day of the tax year. Generally, however, performance-based compensation that satisfies the requirements of Section 162(m) is not subject to the deduction limit. The Committee reviewed all elements of the executive compensation program against the standards for qualifying for the tax deduction. Stock option and performance awards under the 1997 Equity Incentive Plan and awards under the Senior Executive Annual Incentive Plan have been designed to qualify as performance-based compensation, with the intended result that the deduction of compensation under these plans, including compensation from the exercise of options or from performance awards, would not be affected by the Section 162(m) deduction limits.

Deferred and restricted stock awards are not intended to qualify for exemption from the Section 162(m) limits.

In administering the executive compensation program, the Committee will continue to consider whether the deductibility of compensation may be limited under Section 162(m) and, in appropriate cases, may structure such compensation so as to minimize or avoid the effect of those limitations.

Conclusi