Frederic W. Cook & Co., Inc.

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ISS 2006 POLICY CHANGES

On November 17, Institutional Shareholder Service ("ISS") released 2006 updates to its U.S. and Canadian proxy voting policies. While the updates are not as significant as in prior years, there are several new policies, including a new performance test for directors similar to the current CEO pay-for-performance test, and "strong encouragement" for companies to disclose CEO tally sheets providing a total for direct compensation, indirect compensation and severance and descriptions of each element in the total package.

New: Performance Test for Directors

This new policy will be applied on a case-by-case basis to companies in the Russell 3000 index. The worst performing companies[1] in each of ISS' industry groups (24 groups based on four-digit GICS codes) will be identified using weighted-average total shareholder return ("TSR") as follows:

- 1-year TSR weighted 20%
- 3-year TSR weighted 30%
- 5-year TSR weighted 50%

ISS may decide to recommend withholding votes for directors of the identified worst performers after considering each company's:

- Performance improvement in the current year
- Changes in management or board composition
- Recent transactions at the company
- Overall governance practices, particularly any recent changes
- Financial health of the company

New: Tally Sheets for CEOs

ISS has concluded that current SEC executive compensation disclosure requirements are inadequate. Until the SEC can update its requirements in this area, ISS is "strongly encouraging companies to provide better and more transparent disclosure related to CEO pay." ISS will comment negatively in its proxy analyses on companies that do not, at a minimum, provide a tally sheet and description of the CEO's total package, composed of the following items[2]:

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1 Per our conversation with ISS, "worst performing" is not explicitly defined and will reflect a subjective assessment.

2 In 2007, ISS will consider withholding votes for compensation committee members and recommending against proposed or amended equity plans, if compensation disclosure is not improved and tally sheets are not provided.

Component	Amount Earned/Granted	Description
Base Salary	Current figure	Explanation of any increase in base salary
Annual Incentive	Target: Actual earned:	Explanation of specific performance measures and actual deliverables State amount tied to actual performance State any discretionary bonus
Stock Options	Number granted: Exercise price: Vesting: Grant value:	Rationale for determining the number of stock options issued to CEO Accumulated dividend equivalents (if any)
Restricted Stock	Number granted: Vesting: Grant value:	Performance based or time based Rationale for determining the number of restricted stock issued to CEO Accumulated dividends on vested and unvested portion
Performance Shares	Minimum: Target: Maximum: Actual earned: Grant value:	Explanation of specific performance measures and actual deliverables Any dividends on unearned performance shares
Deferred Compensation	Executive portion: Company match (if any): Accumulated executive portion: Accumulated company match (if any):	Provide structure and terms of program Explanation of interest, formulas, minimum guarantees or multipliers on deferred compensation Any holding periods on the company match portion Funding mechanism
Supplemental Retirement Benefits	Actual projected payment obligations	Provide structure and terms of program Explanation of formula, additional credits for years not worked, multipliers or interest on SERPs Funding mechanism
Executive Perquisites	Breakdown of the market value of various perquisites	The types of perquisites provided. Examples: company aircraft, company cars, etc.
Gross-ups (if any)	Breakdown of gross-ups for any pay component	
Severance Associated With Change-in-Control	Estimated payout amounts for cash, equity and benefits	Single trigger or double trigger
Severance (Termination scenario under “for cause” and “not for cause”)	Estimated payout amounts for cash, equity and benefits under different scenarios	
Post Retirement Package	Estimated value of consulting agreement and continuation of benefits	
Estimated Total Package	**$**	

New: Treatment of Transferable Stock Options

ISS will support equity plans permitting transferable options if plan cost, assuming a zero forfeiture rate for the portion of the new share request able to be granted as transferable options, is below the allowable cap. Also, there must be disclosure of the ongoing transferable option program and structure when such a program is in place. Amendments to existing plans to allow for transferable options should state that it does not apply to outstanding grants.

If one-time transfers (e.g., the Microsoft option transfers of underwater options) are not submitted to shareholders for approval, ISS will recommend withholding votes from compensation committee members.

Elimination of Voting Power
Dilution in the Total Cost Calculation

ISS' current methodology for calculating the cost of an equity compensation plan proposal applies a 95% weighting to the plan's shareholder value transfer ("SVT")[3], and a 5% weighting to the dilution impact of current overhang and new shares being requested. Under the new policy, 100% of plan cost will be based on SVT, although ISS' proxy analysis will continue to show the dilution impact.

ISS is changing its policy because it feels dilution is already reflected in stock price, and hence market capitalization. Because SVT is measured as a percentage of market capitalization, ISS feels dilution is double counted by also including it in total plan cost.

Accounting for Dividend Equivalent Rights

Under its current binomial valuation model, dividend equivalent rights ("DERs") attached to equity awards do not impact plan cost. Because DERs enhance the value of underlying equity awards, ISS will now include a value for such rights in its cost model by applying a 0% dividend yield (per our discussion with ISS) if the equity plan permits the granting of DERs.

Burn Rate Policy

ISS implemented a new burn rate override in 2005, under which ISS recommended against a company's equity plan proposal (except for non-employee director equity plans) if the company's three-year average burn rate exceeds its industry group's mean by more than one standard deviation and is more than two percent of common shares outstanding, even if the plan's cost is under the allowable cap.

For companies that grant both full-value awards and stock options, full-value shares are converted to option equivalents for purposes of determining burn rate based on company volatility as follows:

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[3] SVT is the binomial valuation model cost of amount overhang and new shares being requested, divided by market capitalization.

Characteristic	Annual Stock Price Volatility	Conversion Premium
High annual volatility	53% and higher	1 for 1.5
Moderate annual volatility	25% - 52%	1 for 2.0
Low annual volatility	Less than 25%	1 for 4.0

However, if a company commits in a public filing to an upcoming three-year average burn rate equal to its industry group's mean, ISS will support the plan proposal. ISS does not currently include the impact of an option exchange program in its calculation of burn rate.

ISS' new policy relaxes this burn-rate commitment to permit companies to publicly commit to a three-year average burn rate within one standard deviation of its industry group's mean. Updated burn rates are shown in the table below:

2006 Burn Rate Table

		Russell 3000			Non-Russell 3000		
GICS	GICS Description	Mean	Standard Deviation	Mean & Std. Dev.	Mean	Standard Deviation	Mean & Std. Dev.
1010	Energy	1.53%	0.96%	2.50%	2.03%	2.53%	4.56%
1510	Materials	1.37%	0.74%	2.11%	2.15%	2.01%	4.16%
2010	Capital Goods	1.84%	1.09%	2.93%	2.74%	2.63%	5.37%
2020	Commercial Services & Supplies	2.73%	1.60%	4.33%	3.43%	4.18%	7.61%
2030	Transportation	1.76%	1.71%	3.47%	2.18%	2.12%	4.30%
2510	Automobiles & Components	1.97%	1.27%	3.24%	2.23%	2.29%	4.51%
2520	Consumer Durables & Apparel	2.04%	1.22%	3.26%	2.86%	2.48%	5.35%
2530	Hotels Restaurants & Leisure	2.22%	1.09%	3.31%	2.71%	2.46%	5.17%
2540	Media	2.14%	1.24%	3.38%	3.26%	2.52%	5.77%
2550	Retailing	2.54%	1.59%	4.12%	4.01%	4.03%	8.03%
3010, 3020, 3030	Food & Staples Retailing	1.82%	1.31%	3.13%	2.20%	2.79%	4.99%
3510	Health Care Equipment & Services	3.20%	1.71%	4.91%	4.33%	3.20%	7.53%
3520	Pharmaceuticals & Biotechnology	3.70%	1.87%	5.57%	5.41%	4.74%	10.15%
4010	Banks	1.46%	1.00%	2.46%	1.38%	1.42%	2.79%
4020	Diversified Financials	3.00%	2.28%	5.28%	4.46%	4.01%	8.47%
4030	Insurance	1.52%	1.04%	2.56%	2.25%	2.85%	5.10%
4040	Real Estate	1.30%	1.01%	2.31%	1.12%	1.67%	2.79%
4510	Software & Services	5.02%	2.98%	8.00%	6.92%	6.05%	12.97%
4520	Technology Hardware & Equipment	3.64%	2.48%	6.11%	4.73%	4.02%	8.75%
4530	Semiconductors & Semiconductors Equip.	4.81%	2.86%	7.67%	5.01%	3.06%	8.07%
5010	Telecommunication Services	2.31%	1.61%	3.92%	3.70%	3.41%	7.11%
5510	Utilities	0.94%	0.62%	1.56%	2.11%	4.13%	6.24%

On the other hand, ISS is tightening its policy regarding treatment of option exchange programs in that the burn rate policy will now apply to its vote recommendations on option exchange programs. Currently, ISS' policy for evaluating option exchange programs require a value-for-value exchange and exclusion of executive officers and directors. In addition, ISS evaluates the total cost of a company's equity plan, including re-issuance of the surrendered shares, against the allowable cap.

ISS has clarified that the burn rate policy does not apply to bundled proposals on existing equity plans when no new-shares are being requested and the amendments lower total plan cost. As part of our discussion with ISS, ISS has also clarified that it would generally recommend for this type of amendment even though the allowable cap is exceeded.

Poor Compensation Practices

Under its current policy, ISS will recommend withholding votes for compensation committee members of companies with poor compensation practices on a case-by-case basis, and may also recommend against any equity plan proposal. For 2006, ISS has formalized its policy and defined poor compensation practices to include, but not be limited to, the following:

- Egregious employment contracts including excessive severance provisions
- Excessive perks that dominate compensation
- Huge bonus payments without justifiable performance linkage
- Performance metrics that are changed during the performance period
- Egregious SERP (supplemental executive retirement plan) payouts
- New CEO with overly generous new-hire package
- Internal pay disparity
- Other excessive compensation payments or poor pay practices at the company

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This letter is intended to alert compensation professionals about developments that may affect their companies. Note that ISS is hosting a client webcast on Monday, December 5th to outline their 2006 policy updates in detail. Frederic W. Cook & Co., will release an update of this letter if information about the new policies comes to light. General questions about ISS' policy guidelines may be addressed to Wendy Hilburn or David Cole at 212-986-6330. This letter and other published materials are available on our website, www.fwcook.com.