

FREDERIC W. COOK & CO., INC.

2006

COST *of* MANAGEMENT RATIOS

DECEMBER 2006

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It is becoming difficult to find new ways to state the obvious – executive compensation practices and programs are under heavy scrutiny from nearly every perspective. Public perception of senior executive compensation has been summarized in words such as excessive, egregious, unfounded, and counterintuitive. In 2006, aside from the usual cries to reign in executive pay levels, public demand for more and decipherable information regarding executive pay reached an all time high. And it did not go unrecognized. Beginning in 2007, the Securities and Exchange Commission (“SEC”) will require public companies to file more comprehensive and understandable information regarding their executive compensation programs via the new Executive Compensation and Related Person Disclosure rules issued in September 2006.

The demand for more information has also spawned new ways of examining executive pay. The definition of total compensation is changing – with the new disclosure rules it will be easier to quantify, understand and compare the total pay a company’s named executive officers (“NEOs”) receive annually, which, in addition to base salary and bonus as previously required, will include the value of equity compensation using a common approach (i.e., FAS 123R), annual increases in actuarial pension values and supplemental plans, above-market earnings on deferred compensation, and all other compensation (e.g., perquisites and personal benefits) in excess of \$10,000.

Additionally, the presentation of NEO total compensation as a percent of key size criteria such as market capitalization, revenue, and net income is gaining prominence in the media, and, in some cases, is being presented by companies in their public filings. Referred to as Cost of Management Ratios (“COMRs”), these metrics are being touted as a means for comparing pay and performance across companies. The problem is that, heretofore, there has been no basis for comparing COMRs from one company to the next, save for researching public filings and calculating the ratio oneself.

How is one to know if a Net Income COMR of 5% is good, bad, or average? What is a typical Market Cap COMR for a large-, medium- or small-sized company? How have COMRs changed in recent years and what is driving that change?

To address these and other questions, Frederic W. Cook & Co. introduces its first research report on Cost of Management Ratios. The purpose of this report is to present a source for competitive data summarizing the annual cost of NEO total compensation as a percent of three key size criteria: market capitalization, revenue and net income. For this first report, total compensation is defined by current SEC disclosure requirements. That is, total compensation for this 2006 report comprises base salary, annual bonus, the value of equity and cash long-term incentives, other annual compensation and all other compensation (as appropriate and where disclosed). In future reports we will be able to provide total compensation levels as disclosed in the summary compensation table under the new SEC disclosure requirements.

COMR DEFINED

A COMR represents the aggregate cost of total compensation for a company's five highest paid officers divided by a desired size criterion (e.g., market capitalization, revenue, net income, etc.). A detailed definition of total compensation and the size criteria used for calculating COMRs presented in this report is provided in *Appendix I*.

SCOPE OF ANALYSIS

To fully understand executive pay levels within a competitive context it is important to recognize the many factors that can influence total pay levels. These include, in no particular order of priority, operational complexity, company size, global reach, operating environment, market for talent, financial health, and so on. Historically, one of the key determinants of total pay levels for executives has been company size. Generally, as the size of the organization increases, so too does the complexity of operations, and in turn, the responsibilities of the executives charged with running the company. In terms of compensation, greater responsibility equals greater pay.

Thus, to accurately understand if pay levels are "competitive" with the "market," it is important to ensure that the basis for comparison is indeed appropriate. That is, comparisons of executive pay levels should be made within the appropriate context, most notably, with companies that are of similar size. To this end, information presented in this report is segmented by company size and examines COMRs for samples of large-, medium-, and small-sized companies drawn from the S&P Super 1500 index of companies.

- **Large** company sample reviews the median 60 companies of the first 500 companies in the S&P Super 1500 (i.e., S&P 500) as determined by revenue
- **Medium** company sample reviews the median 60 companies of the middle 500 companies in the S&P Super 1500 as determined by revenue
- **Small** company sample reviews the median 60 companies of the remaining 500 companies in the S&P Super 1500 as determined by revenue

Median size information as of the 2005 calendar year end for these three groups of companies is presented below. A detailed listing of the companies analyzed for this report is presented in *Appendix II*.

Sample	Market Capitalization	Revenue	Net Income
<i>Large</i>	\$11,157	\$8,147	\$638
<i>Medium</i>	\$2,191	\$1,568	\$116
<i>Small</i>	\$1,077	\$423	\$39

In addition to company size, we examined COMRs based on performance measured in terms of annual total shareholder return (TSR). Results are presented for each sample of Large, Medium, and Small companies and are segmented as follows:

- **High Performers** reviews total compensation and COMRs for companies with 2005 annual TSR in the top quartile of the peers (i.e., 75th percentile and above)
- **Middle Performers** reviews total compensation and COMRs for companies with 2005 annual TSR in the inter-quartile range of the peers (i.e., between the 25th and 75th percentiles)
- **Low Performers** reviews total compensation and COMRs for companies with 2005 annual TSR in the bottom quartile of the peers (i.e., 25th percentile and below)

Summary performance information for these companies is presented below.

Median TSR by Sample			
	Small Co. Sample	Medium Co. Sample	Large Co. Sample
High Performers (≥ 75 th %ile)	36.9%	30.8%	36.1%
Middle Performers (25th to 75th %ile)	-4.0%	6.1%	4.6%
Low Performers (≤ 25 th %ile)	-25.2%	-16.6%	-17.3%

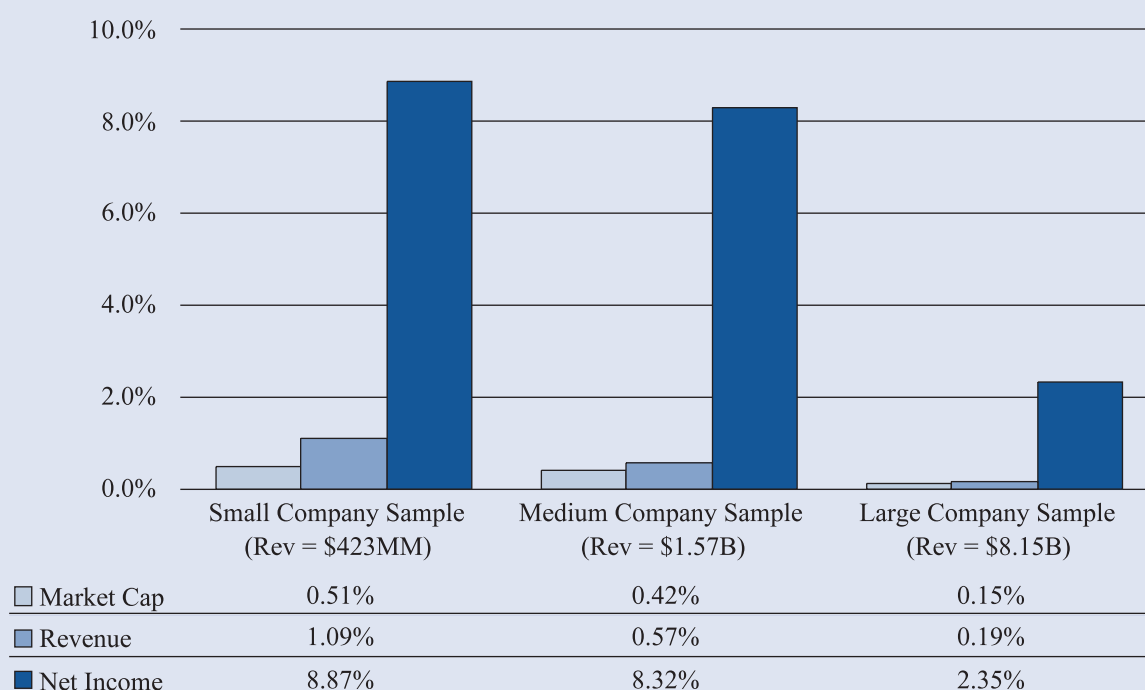
SUMMARY FINDINGS

OVERALL RESULTS

Key findings from our COMR analysis indicate:

- After significant growth from 2003 to 2004, total compensation levels in 2005 declined slightly for small- and large-sized companies, but continued to rise for medium-sized companies.
 - Each of the three samples of companies continued to exhibit growth in terms of all size criteria measured (market capitalization, revenue, and net income) from 2003 to 2004 and again from 2004 to 2005.
 - As expected, COMRs vary significantly by company size. As illustrated below, our findings indicate that compensation levels increase disproportionately relative to increases in company size
- Stated differently, larger companies recognize economies of scale with respect to the cost of aggregate NEO total compensation as a percent of key size criteria (i.e., it costs larger companies proportionately less to compensate its NEOs than it does smaller companies), which is consistent with long-standing findings that larger companies use proportionately less equity for long-term incentives than small companies.

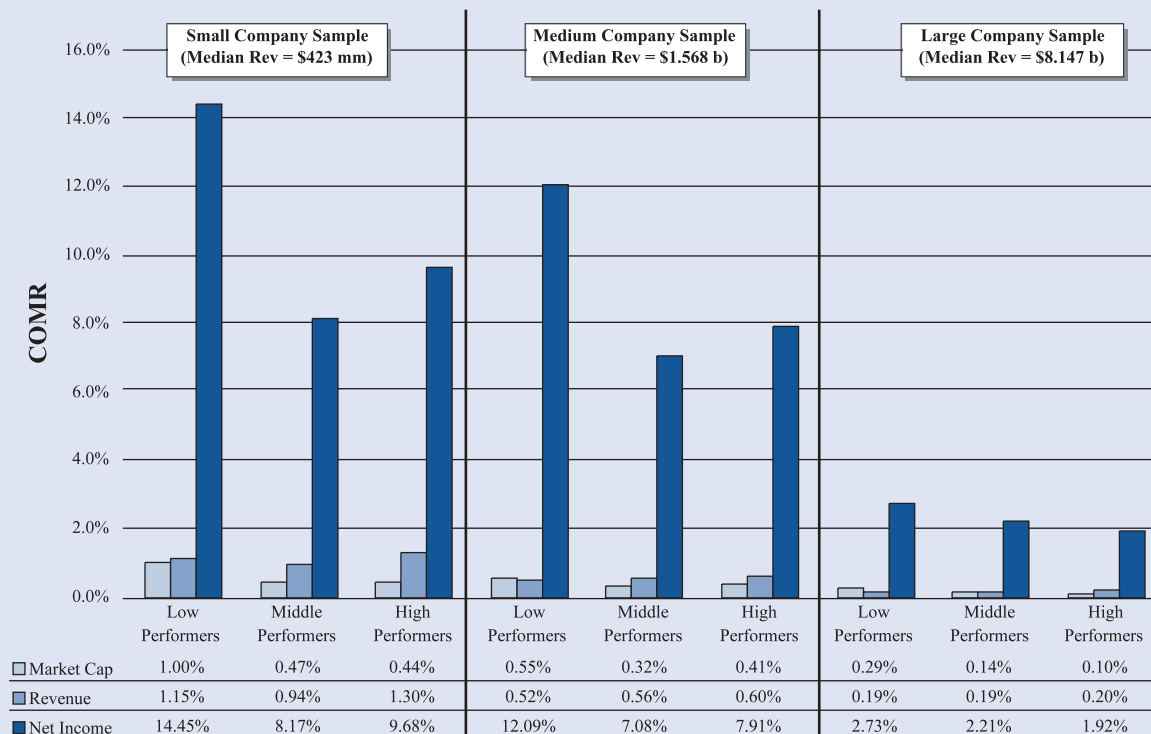
2005 Median COMRs



SUMMARY FINDINGS

- Within each sample of Large, Medium and Small companies, Revenue COMRs are generally consistent regardless of whether the company is a High, Middle, or Low Performer in terms of annual TSR
- Low Performers tend to have higher ratios than High Performers for Market Cap and Net Income COMRs, as illustrated below
- These data support historic evidence that indicates that company size, measured in terms of revenue, is a key determinant of total compensation levels and that companies within each sample are benchmarking pay based on revenue reasonably well

Median COMRs By Performance



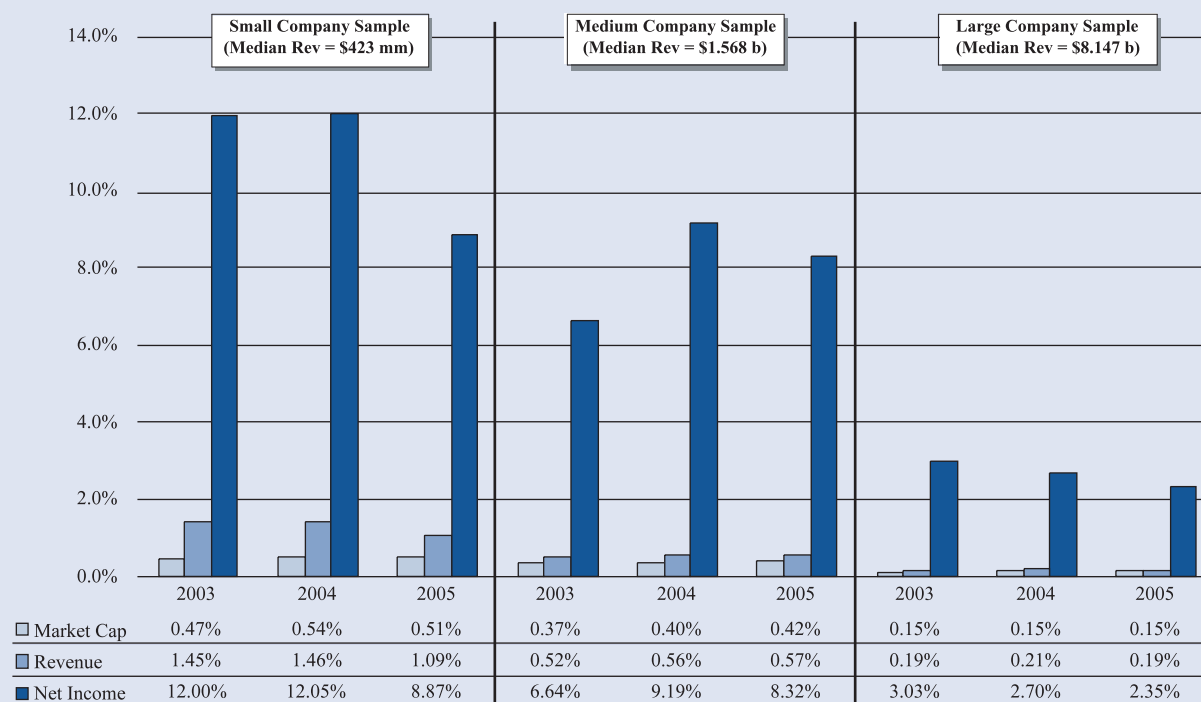
SUMMARY FINDINGS

COMR TRENDS

Historically, COMRs have behaved differently depending on company size. In most cases, COMRs have followed the same general trend as total compensation levels.

- Small company COMRs have followed total compensation trends over the past few years, increasing modestly from 2003 to 2004 and declining from 2004 to 2005. As might be expected, Small company COMRs are more variable, indicating that aligning changes in total compensation to more volatile changes in the size criteria (e.g., market cap, revenue, net income) in the denominator of the COMR equation is difficult to achieve over the span of a one-year period.
- Medium company Market Cap and Revenue COMRs have increased steadily since 2003, reflecting growth in total compensation levels that outpaced growth for these size criteria, while Net Income COMRs have fluctuated.
- Large company Market Cap and Revenue COMRs have been relatively flat since 2003, reflecting this sample's close alignment of changes in total compensation and size criteria (i.e., market cap and revenue) in the denominator of the COMR equation. Net Income COMRs declined in each of the last two years, due to earnings growth that outpaced total compensation growth in both periods.

Median COMRs Total Sample

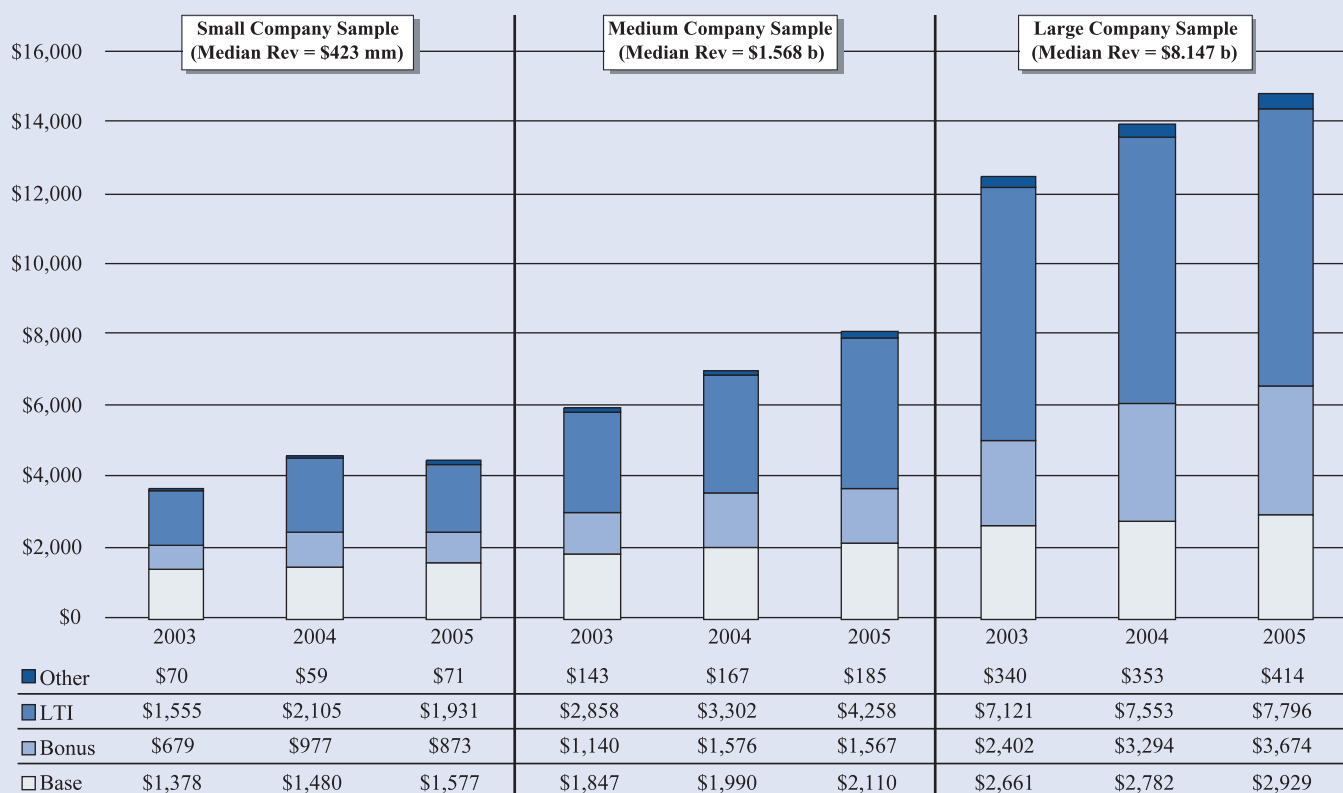


TOTAL COMPENSATION TRENDS

As illustrated below, aggregate NEO total compensation has, for the most part, increased steadily over the past three years among the companies included in our analysis.

Median Aggregate NEO Total Compensation*

Total Sample
(thousands)



GROWTH IN MEDIAN PAY LEVELS FROM PREVIOUS YEAR*

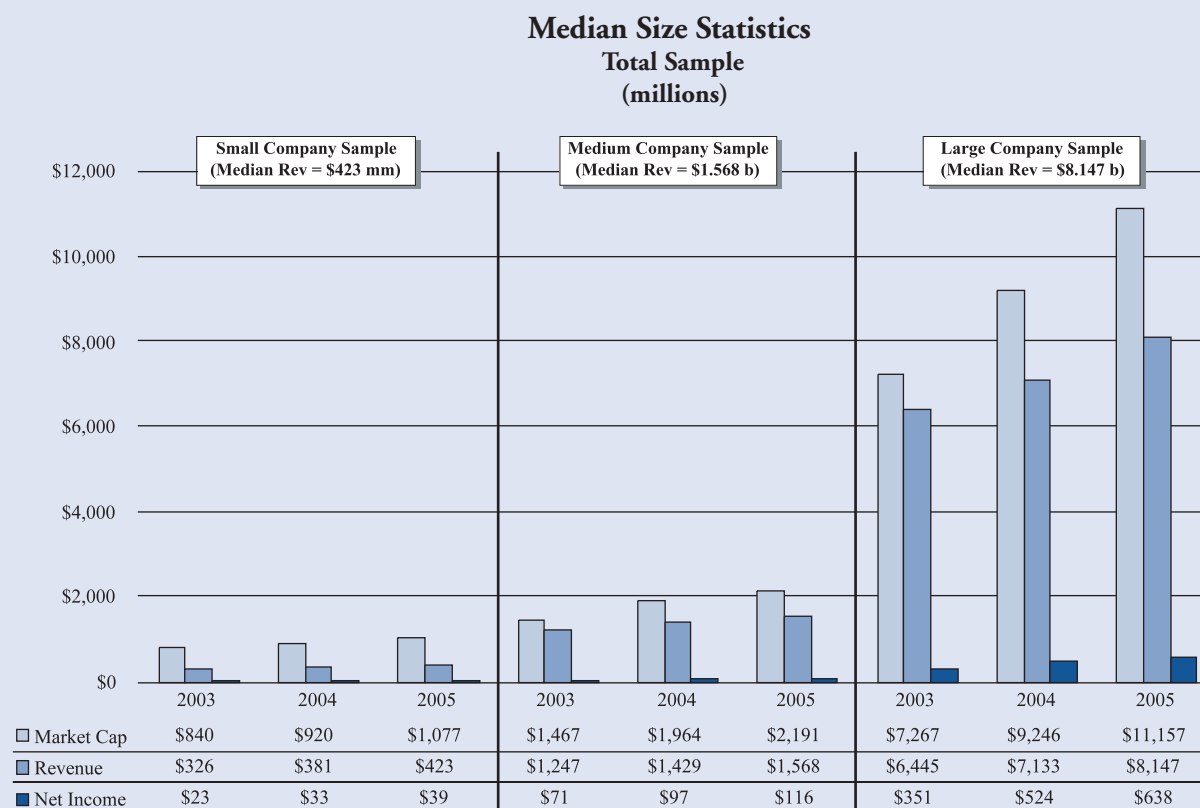
	Small		Medium		Large	
Pay Element	2004	2005	2004	2005	2004	2005
<i>Other</i>	-16%	20%	17%	10%	4%	17%
<i>LTI</i>	35%	-8%	16%	29%	6%	3%
<i>Bonus</i>	44%	-11%	38%	-1%	37%	12%
<i>Base Salary</i>	7%	7%	8%	6%	5%	5%

*Note: data for each component of pay represents the median of independently arrayed findings, and as such, the total for all elements of pay presented above will not equal the independently arrayed median total compensation values presented elsewhere in this report.

SUMMARY FINDINGS

SIZE TRENDS

Median levels for size criteria have also increased steadily over the same three-year period, as illustrated below.

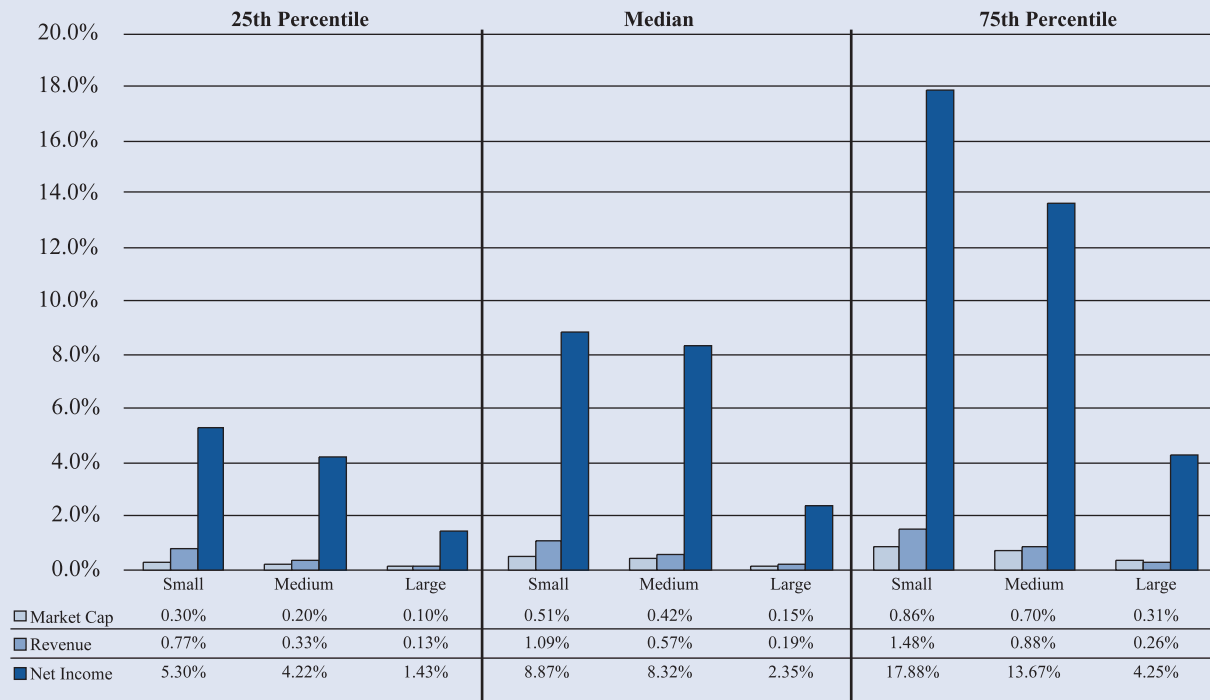


CHANGE IN MEDIAN LEVELS OF SIZE CRITERIA FROM PREVIOUS YEAR

Financial Criteria	Small		Medium		Large	
	2004	2005	2004	2005	2004	2005
Market Cap	10%	17%	34%	12%	27%	21%
Revenue	17%	11%	15%	10%	11%	14%
Net Income	45%	19%	35%	20%	49%	22%

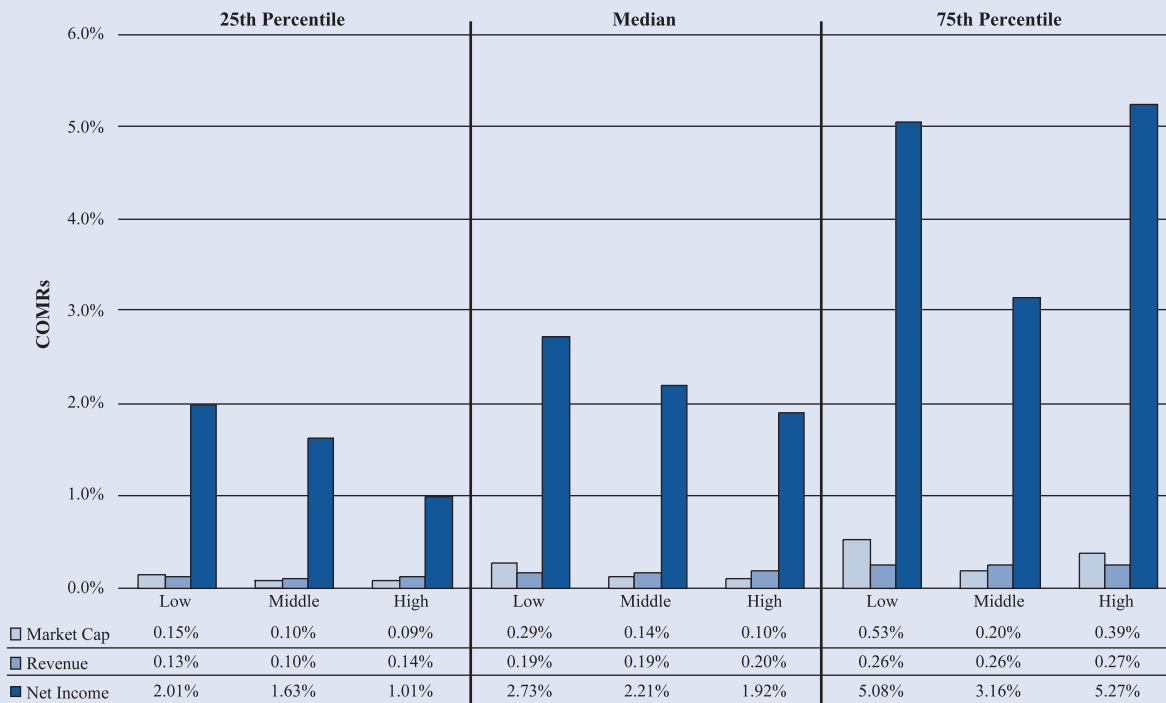
2005 COMRs

2005 COMR Summary Statistics



2005 COMRs BY PERFORMANCE

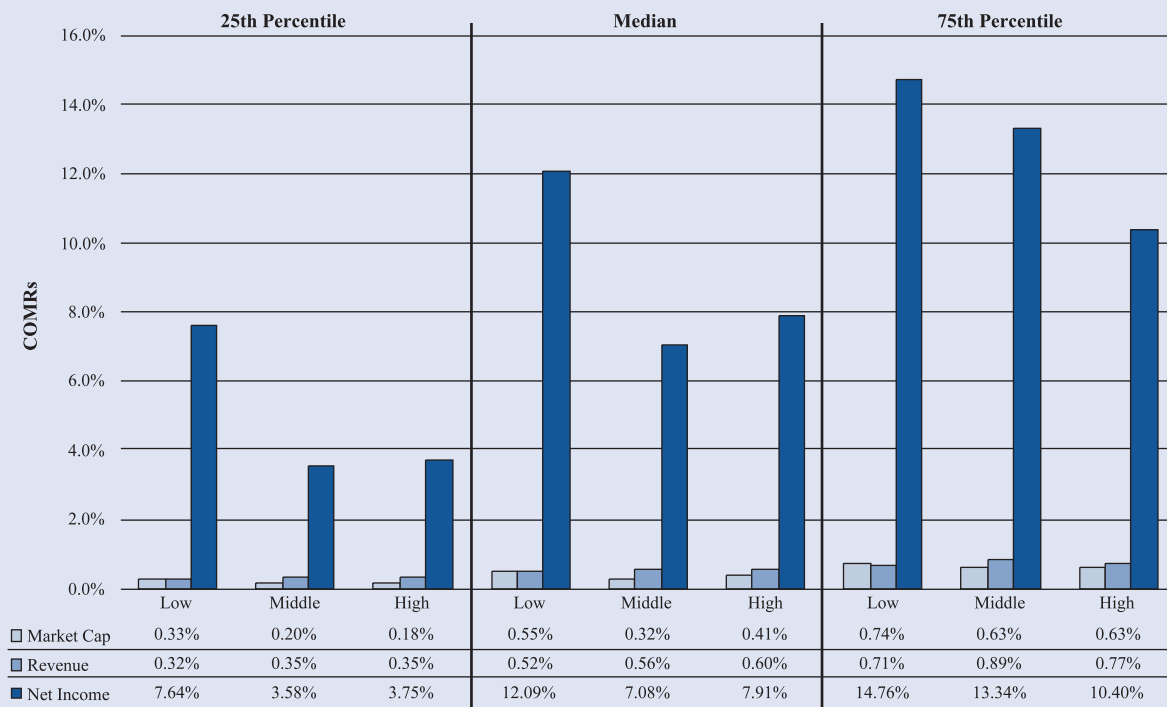
COMR By Performance Large Company Sample



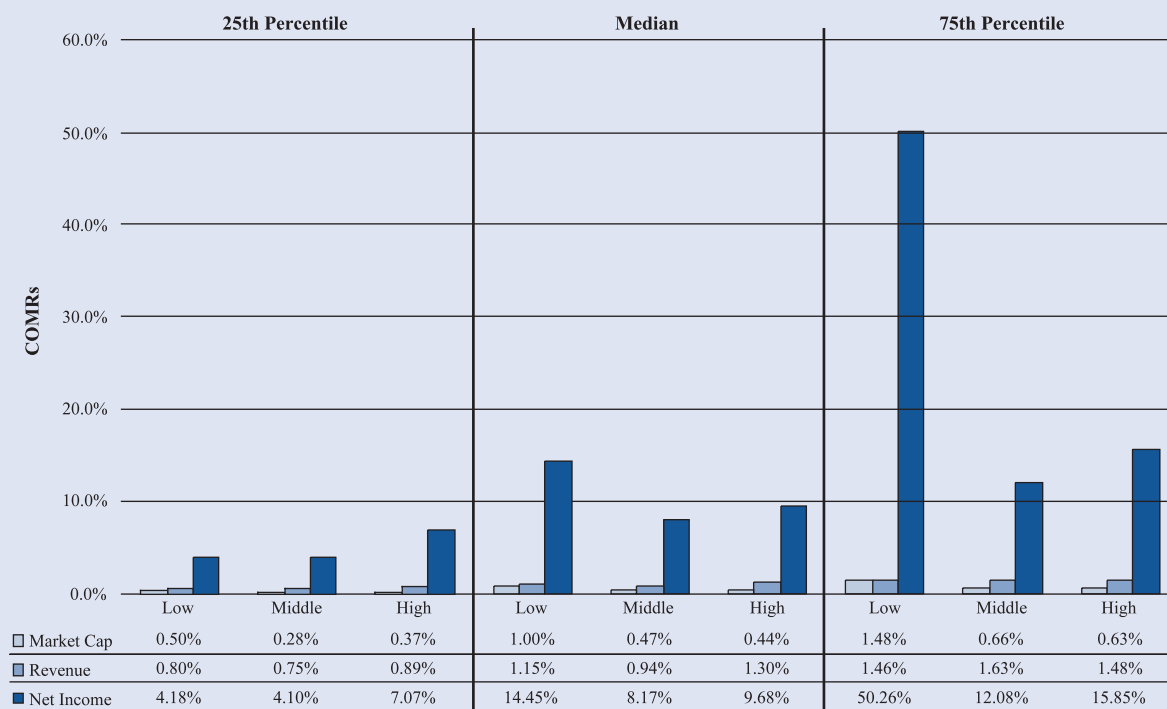
DETAILED FINDINGS

2005 COMRs BY PERFORMANCE *(continued)*

COMR By Performance Medium Company Sample



COMR By Performance Small Company Sample



HISTORIC COMRs

Cost of Management Ratios by Company Size

Large Company Sample

Top 5 TC as a Percent of	2003			2004			2005		
	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile
Market Capitalization	0.10%	0.15%	0.28%	0.11%	0.15%	0.26%	0.10%	0.15%	0.31%
Revenue	0.15%	0.19%	0.29%	0.14%	0.21%	0.29%	0.13%	0.19%	0.26%
Net Income	1.68%	3.03%	6.49%	1.93%	2.70%	4.37%	1.43%	2.35%	4.25%

Medium Company Sample

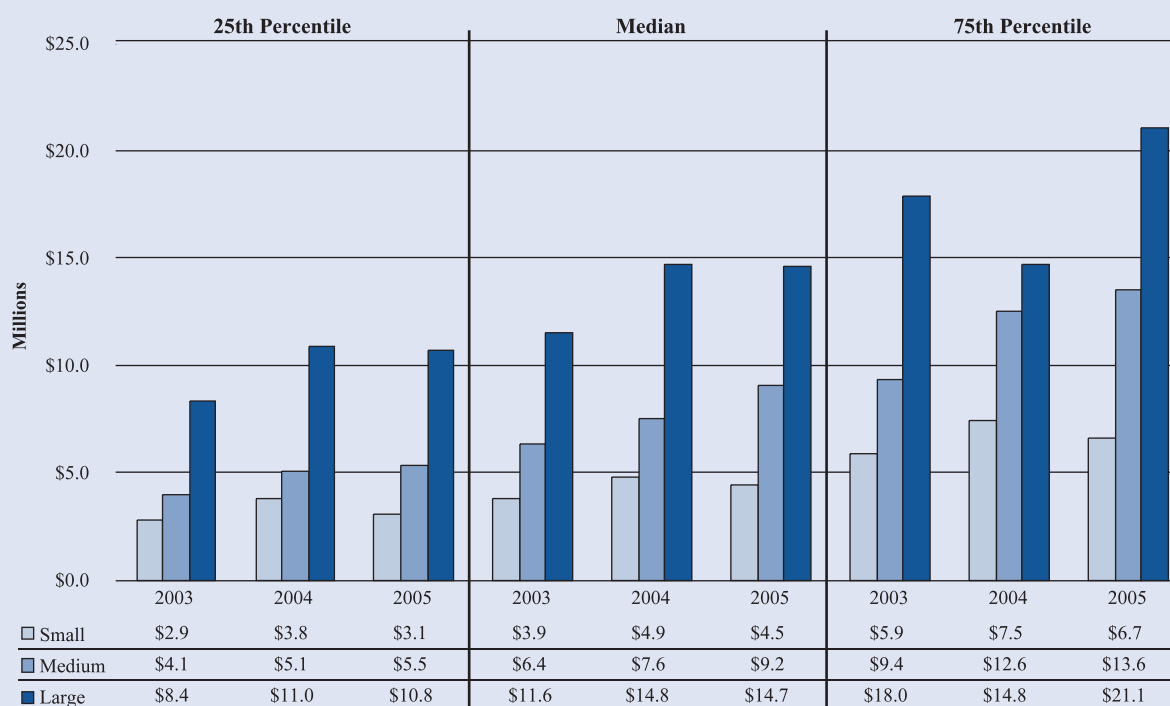
Top 5 TC as a Percent of	2003			2004			2005		
	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile
Market Capitalization	0.21%	0.37%	0.61%	0.22%	0.40%	0.64%	0.20%	0.42%	0.70%
Revenue	0.34%	0.52%	0.78%	0.35%	0.56%	1.00%	0.33%	0.57%	0.88%
Net Income	3.86%	6.64%	13.40%	4.93%	9.19%	15.64%	4.22%	8.32%	13.67%

Small Company Sample

Top 5 TC as a Percent of	2003			2004			2005		
	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile	25th %ile	Median	75th %ile
Market Capitalization	0.32%	0.47%	0.74%	0.31%	0.54%	0.80%	0.30%	0.51%	0.86%
Revenue	0.87%	1.45%	2.16%	0.96%	1.46%	1.99%	0.77%	1.09%	1.48%
Net Income	5.29%	12.00%	18.89%	6.34%	12.05%	19.27%	5.30%	8.87%	17.88%

HISTORIC TOTAL COMPENSATION LEVELS

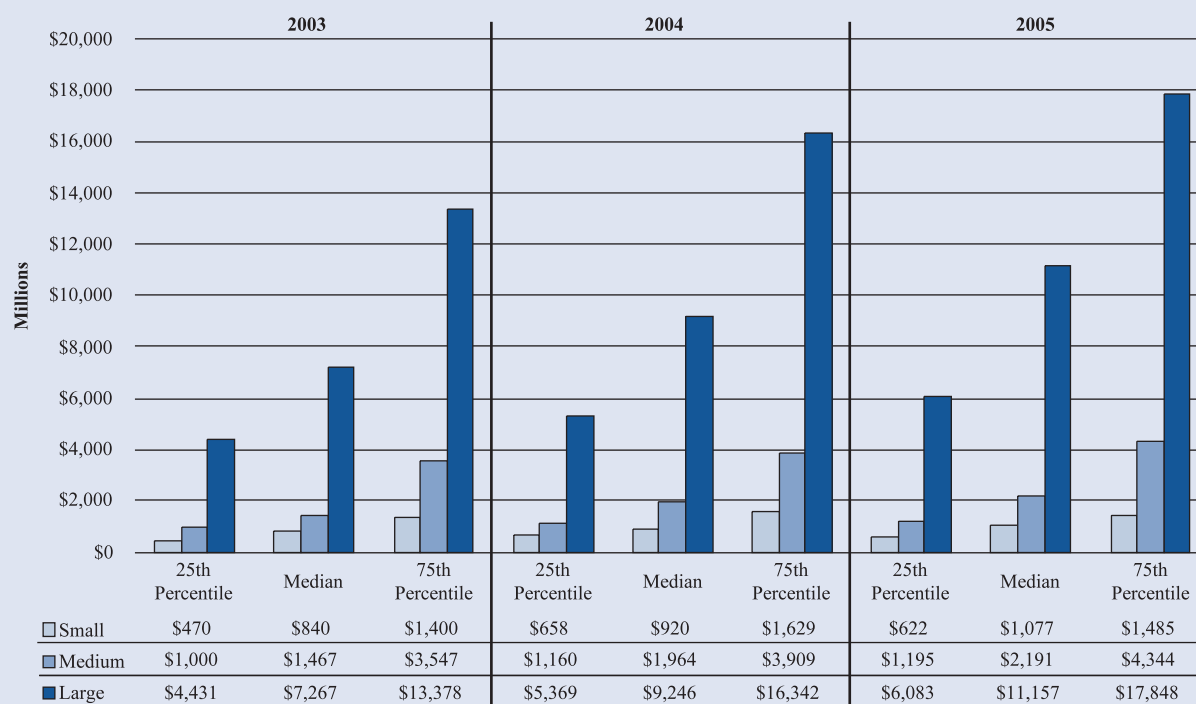
Aggregate NEO Total Compensation By Company Size



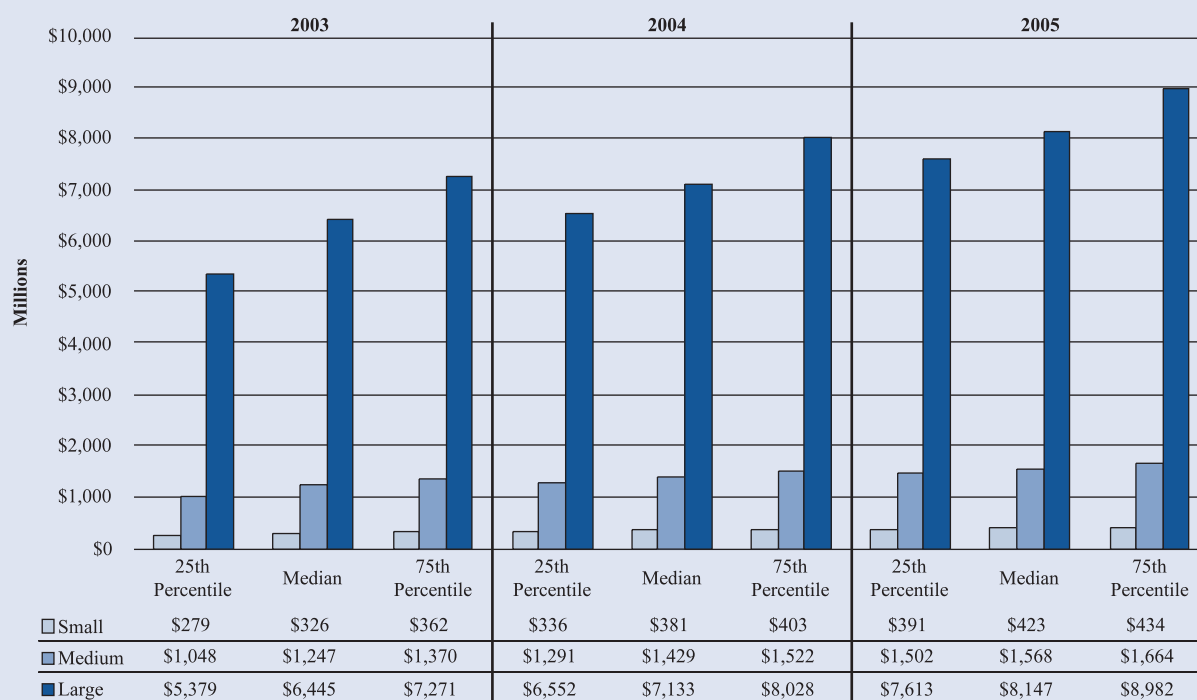
DETAILED FINDINGS

HISTORIC SIZE ANALYSIS

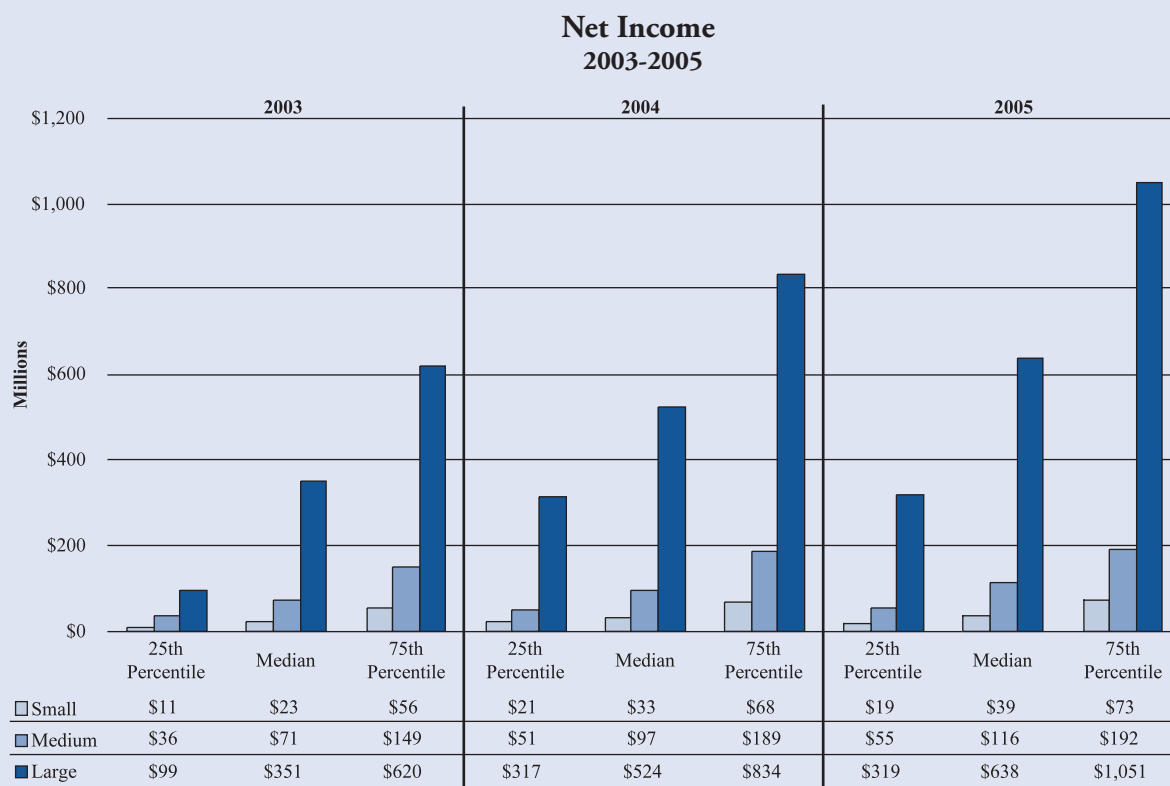
Market Capitalization 2003-2005



Revenue 2003-2005



HISTORIC SIZE ANALYSIS *(continued)*



TOTAL COMPENSATION DEFINED

All compensation information presented herein was obtained from documents filed with the SEC including company proxy statements, annual reports, 10-Q, 10-K, and S-1 filings. Total compensation for purposes of this report includes the following elements of pay:

- Base salary representing the dollar value of cash and non-cash salary earned by the named executive officer during the fiscal year covered. For partial year circumstances, data has been annualized to provide an estimated total annual base salary for the year.
- Annual bonus representing the dollar value of cash and non-cash bonus earned by the named executive officer during the fiscal year covered.
- Long-term incentives, representing the economic value of stock options, other equity arrangements, and cash long-term performance plans.
 - Stock option and stock appreciation right (SAR) values are based on the number of shares/rights granted to the named executive officer times the weighted average fair value of option grants for the year as reported in the company's Form 10-K. For companies that did not report an average fair value of options in the Form 10-K, the binomial option pricing model was used to value option grants using FAS Statement 123 assumptions as disclosed in Form 10-K notes to consolidated financial statements.
 - Restricted stock and performance shares are valued based on the fair market value of the stock at year end times the number of shares granted (note: performance shares are valued at target).
 - Long-term performance cash is valued at target based on the dollar denominated award level presented in the Long-Term Incentive Plan ("LTIP") awards table in the proxy.
 - Extraordinary awards that are intended to reflect multi-year periods are annualized over the granting cycle, the length of the employment agreement, or the vesting period, as appropriate (examples of these awards are hire grants, retention awards, etc.).
- Other reported annual compensation, including:
 - Value of perquisites and other personal benefits, securities or property in excess of \$50,000 or 10% of the total of annual salary and bonus reported for the named executive officer.
 - Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation.
 - Earnings on long-term incentive plan compensation paid during the fiscal year or payable during that period but deferred at the election of the named executive officer.
 - Amounts reimbursed during the fiscal year for the payment of taxes.

Note: The following items have been excluded from other annual compensation:

- Buy-outs of long-term incentive compensation due to merger, acquisition, or new hire.
- Relocation expenses reported for the named executive officer.
- Tax reimbursements/equalization, cost of living adjustments, exchange rate adjustments, and foreign housing costs associated with assignments for executives serving abroad.
- All other compensation, including:
 - The dollar value of amounts earned on long-term incentive plan compensation during the fiscal year, or calculated with respect to that period, to the extent not reported as other annual compensation.
 - Company contributions or other allocations to vested and unvested defined contribution plans.
 - The dollar value of any company-paid insurance premiums.

Note: The following items have been excluded from all other compensation:

- Termination payments.
- Change-in-control payments.

SIZE CRITERIA DEFINED

Definition for each size criteria used for calculating COMRs in this report are as follows:

- **Market Capitalization:** Represents the total dollar value of all outstanding shares as of a specified date. For this report, market capitalization is calculated by multiplying the number of shares outstanding by the market price of one share at the calendar year-end in each of the last three years.
- **Revenue:** Represents gross sales less cash discounts, trade discounts, and returned sales and allowances for which credit is given to customers, including:
 - Any revenue source that is expected to continue for the life of the company
 - Other operating revenue
 - Installment sales
 - Franchise sales (when corresponding expenses are available)
- **Net Income:** For purposes of this report, net income represents the earnings (loss) after all expenses, including special items, income taxes, and minority interest; net income does not include discontinued operations or extraordinary items (i.e., commonly referred to as income before extraordinary items).

APPENDIX II

STUDY COMPANIES

AFFYMETRIX	CATHAY GENERAL BANCORP	HEINZ (H J)	PLUM CREEK TIMBER
AGILYSYS	CENTENE	HIBBETT SPORTING GOODS	PNC FINANCIAL
AIR PRODUCTS & CHEMICALS	CERADYNE	HUB GROUP	POTLATCH
AIRTRAN HOLDINGS	CERIDIAN	HYDRIL	PRAXAIR
ALEXANDER & BALDWIN	CHILDRENS PLACE	INTEGRATED DEVICE TECHNOLOGY	PREPAID LEGAL SERVICES
ALLIANCE DATA SYSTEMS	CHITTENDEN	INTER-TEL	PRICE (T. ROWE)
ALLTEL	CHRISTOPHER & BANKS	INVACARE	PRINCIPAL FINANCIAL GROUP
AMAZON.COM	CIENA	INVESTMENT TECHNOLOGY	PROGRESS SOFTWARE
AMBAC FINANCIAL	CREDENCE SYSTEMS	ITT INDUSTRIES	PROVIDENT BANKSHARES
AMEDISYS	CREE	JABIL CIRCUIT	QUAKER CHEMICAL
AMER ITALIAN PASTA	CSG SYSTEMS INTERNATIONAL	JEFFERIES GROUP	REGENCY CENTERS
AMERICREDIT	CSX	JOS A BANK CLOTHIERS	REPUBLIC BANCORP
AMERIPRISE FINANCIAL	CYMER	KB HOME	RESMED
AMERUS GROUP	DANAHER	KEMET	REYNOLDS AMERICAN
AMSURG	DENDRITE INTERNATIONAL	KEYSPAN	ROHM AND HAAS
ANADARKO PETROLEUM	DILLARDS	KINDER MORGAN	ROPER INDUSTRIES
ANGELICA	DOLLAR GENERAL	L-3 COMMUNICATIONS	RUSSELL
ANTEON INTERNATIONAL	DONALDSON CO	LACLEDE GROUP	SCANSOURCE
APACHE	DONNELLEY (R R) & SONS	LAM RESEARCH	SCHERING-PLOUGH
APARTMENT INVT &MGMT	DTE ENERGY	LUCENT	SCP POOL
APPLIED MATERIALS	DUN & BRADSTREET	MCDATA	SELECTIVE INS GROUP
APRIA HEALTHCARE GROUP	EAST WEST BANCORP	MEDICIS PHARMACEUTICALS	SHERWIN-WILLIAMS
ARMOR HOLDINGS	EASTMAN CHEMICAL	MENS WEARHOUSE	SIGMA-ALDRICH
ARTESYN TECHNOLOGIES	EMC	METHODE ELECTRONICS	SILICON LABORATORIES
ARTHUR J GALLAGHER	ENTERCOM COMMUNICATIONS	MGIC INVESTMENT	SONIC AUTOMOTIVE
ARVINMERITOR	EQUIFAX	MILLER (HERMAN)	SOURCECORP
ASHLAND	FASTENAL	MODINE MANUFACTURING	SOUTHWEST AIRLINES
AUTODESK	FEI	MTS SYSTEMS	STATE STREET
AUTOMATIC DATA PROCESSING	FERRO	NETWORK APPLIANCE	STEIN MART
AVOCENT	FIDELITY NATIONAL	NEWPORT	SVB FINANCIAL
AVON PRODUCTS	FIFTH THIRD	NISOURCE	SWIFT ENERGY
AXCELIS TECHNOLOGIES	FILENET	NORDSTROM	TENET HEALTHCARE
BAKER HUGHES	FIRST AMERICAN	NORFOLK SOUTHERN	TEXAS REGL BCSHS
BANK OF NEW YORK	FIRST MIDWEST BANCORP	NORTHEAST UTILITIES	TIMBERLAND
BANTA	FREDS	ODYSSEY HEALTHCARE	UCBH HOLDINGS
BB&T	FULLER (H. B.)	OFFICEMAX	UNITED BANKSHARES
BELO	GANNETT	PAR PHARMACEUTICAL	VEECO INSTRUMENTS
BJ'S WHOLESALE CLUB	GENERAL COMMUNICATION	PARKER-HANNIFIN	VERISIGN
BLYTH	HAEMONETICS	PAYCHEX	VIACOM
BMC SOFTWARE	HANCOCK FABRICS	PEPCO HOLDINGS	WATSON PHARMACEUTICALS
BOB EVANS FARMS	HARRAHS ENTERTAINMENT	PERKINELMER	WESTAR ENERGY
BOSTON PROPERTIES	HCC INSURANCE HOLDINGS	PER-SE TECHNOLOGIES	WMS INDUSTRIES
CACI INTERNATIONAL	HEIDRICK & STRUGGLES	PHELPS DODGE	WORLD FUEL SERVICES
CAMPBELL SOUP		PHILLIPS-VAN HEUSEN	XCEL ENERGY
CATALINA MARKETING		PHOTRONICS	XILINX
			YRC WORLDWIDE
			YUM BRANDS

Frederic W. Cook & Co., Inc. is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, our firm has served more than 1,900 corporations, including 40 percent of the current Fortune 200 during the past two years, in a wide variety of industries from our offices in New York, Chicago, Los Angeles, and San Francisco. Our primary focus is on performance-based compensation programs that help companies attract and retain business leaders, motivate and reward them for improved performance, and align their interests with shareholders. Our range of consulting services includes:

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- Competitive Assessment
- Corporate Governance Matters
- Corporate Transactions
- Directors' Remuneration
- Incentive Grants and Guidelines
- Long-term Incentive Design
- Ownership Programs
- Performance Measurement
- Recruitment/Retention Incentives
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