FREDERIC W. COOK & CO., INC.

FVT

FAIR VALUE TRANSFER

Alternative Approach to Determining Aggregate Long-Term Incentive Grant Sizes

NOVEMBER 2006

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We are pleased to present our third annual survey of aggregate long-term incentive grant practices pertaining to how much value is being transferred by shareholders to employees. This survey complements our long-standing survey "The Top 250: Long-term Incentive Grant Practices for Executives," which focuses primarily on the long-term incentive vehicles being used by companies, i.e., the "how," as compared to this report which focuses on "how much."

With the ever increasing focus on executive compensation pay levels, it is vital for Compensation Committees and Boards of Directors annually to ask themselves:

- What should we be spending, in the aggregate, on long-term incentive grants?
- What total share usage is competitive for a company of our size and in our industry?

Compensation Committees traditionally answered these important questions in two different ways. The first was to compare its own annual share usage rate measured as a percentage of average outstanding company shares, i.e., the "run rate," or "burn rate," against those of its peers or general industry practices. The second was to look at its "overhang," i.e., the number of shares represented by outstanding grants and available shares remaining for future grants as a percentage of total fully diluted company shares at year end, also versus its peers or general industry practices.

Over the past several years, however, we have witnessed a market shift in long-term incentive (LTI) compensation strategies in response to accounting changes and shareholder pressures to constrain dilution. The result is a movement away from options toward full-value share grants. In 2004, the Financial Accounting Standards Board finalized the accounting mandate for stock option expensing, known as "Statement 123(R), Share-Based Payment." This mandate, which is probably the largest single influencing factor in recent history on long-term design, went into effect for public companies whose fiscal years began after June 15, 2005, and requires that a compensation expense for all equity awards, including stock options, be recorded on a company's income statement at their grant date "fair value." As a result, stock options are no longer, naively, considered "free."

Accordingly, the two approaches generally employed to answer the above questions have become less useful in that they count all shares equally, regardless of award type. While these approaches made sense when stock options made up the vast majority of LTI awards, and while still important, they have taken a back seat to the perspective of overall affordability as reflected on the company's income statement and the *value* of the awards being provided to employees.

OUR ALTERNATIVE: FAIR VALUE TRANSFER

In order to more accurately evaluate the aggregate cost of equity incentive programs, compensation committees are now closely looking at the company's fair value transfer (FVT), which measures the aggregate grant value and potential cost of LTI compensation awards.

The FVT method:

- Provides a measure of aggregate pre-tax compensation cost of grants made in a given year even though cost will likely be spread over multiple future years for profit and loss purposes
- Facilitates trade-offs between various LTI vehicles since all forms of awards are expressed on an economically equivalent basis
- Provides a better way of comparing proportionate costs of various grant types in an option expensing environment
- Differentiates the dilutive impact of various grant types; i.e., recognizes that an option has less immediate dilution than a full-value share

For comparison purposes, annual FVT can be measured against either:

- A company's total equity market capitalization, or
- An internal financial measure, such as revenues or net income

THE BENEFITS OF MEASURING FVT AS A PERCENTAGE OF MARKET CAPITALIZATION/REVENUE/ NET INCOME ARE:

- Allows comparisons to be made across companies to assess the competitiveness and reasonableness of a given company's aggregate LTI budget
- Eliminates distortion from stock price fluctuation, especially for those companies establishing grant guidelines based on competitive LTI values
- Is generally consistent with the way investor advisory groups, such as Institutional Shareholder Services (ISS) and Glass Lewis, primarily assess the reasonableness of company aggregate grant practices and new share requests
  - ISS recognized the issues associated with traditional measures of potential dilution and switched its primary methodology for evaluating the reasonableness of share authorization requests from traditional potential dilution to shareholder value transfer (SVT). SVT measures outstanding and potential grant value as a percentage of market capitalization
  - In theory, ISS measures the portion of the company's market value that can potentially be transferred to executives and employees through LTI grants. The ISS methodology infers that investors regard company market-cap value as a relevant reference point for comparing grant values (and costs) across companies
  - Although similar in concept to ISS' SVT calculation, our FVT analysis focuses on annual usage (as opposed to total potential dilution), and uses a different valuation methodology
  - Glass Lewis looks at the annual accounting cost of long-term incentive awards, a methodology more similar to our FVT

FVT measures the pre-tax “fair value” of equity awards granted during the year. For the purposes of this report, pre-tax fair value of equity awards was calculated for the most recent three years available using each company’s form 10-K disclosure, supplemented with information from proxy statements as necessary.

Fair value is calculated as follows:

- Options are valued using the weighted-average fair value of options granted during the year. If fair value is not disclosed in public filings, it was calculated using the binomial option pricing model and the reported company FAS 123 input assumptions
  - *Note:* in future company proxy statements, fair value will be a required disclosure item
- Restricted shares are valued at fair market value on grant date
- Performance shares are valued at fair market value on grant date using target number of shares; cash-based LTI awards are valued at grant-date target value
  - *Note:* if aggregate grant data for restricted shares, performance shares and cash-based LTI awards are not disclosed, aggregate grants made to the named executive officers disclosed in proxy statements are used, under the assumption that these executives receive the majority of the awards

FVT as a percentage of market capitalization is calculated using an approximation of the weighted-average market capitalization at the time the grants were made:

$$\text{FVT \%} = \frac{\text{Pre-Tax Fair Value of Equity Awards Granted During the Year}}{\text{Weighted-Average Market Capitalization}}$$

AN EXAMPLE CALCULATION OF FVT IS SHOWN BELOW:

Options Granted	1,000,000
Weighted-Average Exercise Price	$50.00
Weighted-Average Fair Value of Options	$15.00
Aggregate Pre-Tax Option Fair Value	*$15,000,000*
Restricted/Performance Shares Granted	100,000
Weighted-Average Grant Price	$50.00
Aggregate Pre-Tax Fair Value	*$5,000,000*
FVT	*$20,000,000*
Weighted-Average Basic Shares O/S	50,000,000
Weighted-Average Market Capitalization	$2,500,000,000
FVT % of Market Cap	*0.80%*

A simple example illustrates the need to focus on the fair value of LTI awards, highlighting the fact that while one stock option and one share of restricted stock are comparable on a share basis, they are clearly different in terms of value. The example below shows that granting half the number of option shares as restricted stock can actually double the fair value and the amount being "spent" by the company:

ASSUMPTIONS:	
Shares Outstanding	100,000
Stock Price	$10.00
Binomial % of Stock Price	25%

	Stock Options	Restricted Shares	Change
Number Granted	1,000	500	—
Run Rate	1.00%	0.50%	–50%
Pre-Tax Value	2,500	5,000	—
Fair Value Transfer	0.25%	0.50%	+100%

RESEARCH SAMPLE

To identify patterns in FVT usage among companies of different sizes and industry sectors, we selected 180 publicly-traded companies based on market capitalization as of June 30, 2006 and industry categorizations according to Standard & Poor's Global Industry Classification Standard Industry Group codes:

	Small Cap (Mkt. Cap. < $1B)	Mid Cap (Mkt. Cap. $1B-$5B)	Large Cap (Mkt. Cap. > $5B)	Total
Industrials	20	20	20	**60**
Hi-Tech	20	20	20	**60**
Retail	20	20	20	**60**
Total	**60**	**60**	**60**	**180**

The selected companies are identified in the Appendix. Eighty-three percent of the companies are the same as those evaluated in our January 2006 report; the remaining seventeen percent were eliminated due to acquisitions and replaced with companies similar in terms of size and industry

Market capitalizations as of August 31, 2006, and trailing four-quarters' revenues break down as follows:

	Market Capitalization as of 8/31/06 ($ Mil.)			**Trailing 4-Qtrs. Revenue as of 8/31/06 ($ Mil.)**			**Market Cap as a Multiple of Revenue**		
	25th P	Median	75th P	25th P	Median	75th P	25th P	Median	75th P
Size Categories									
Small Cap	$343	$501	$735	$275	$570	$1,156	0.3	0.9	1.9
Mid Cap	1,355	1,911	2,787	941	1,794	3,158	0.7	1.1	2.2
Large Cap	9,259	16,796	35,074	5,532	11,648	23,418	0.9	1.6	3.2
Industry Sectors									
Industrial	$737	$1,822	$8,773	$1,078	$2,226	$8,611	0.7	1.0	1.6
Hi-Tech	830	1,953	8,581	300	900	2,302	2.0	3.4	4.7
Retail	619	2,427	8,057	1,266	3,826	8,661	0.3	0.7	1.0
Total Sample	***$743***	***$1,911***	***$8,739***	***$705***	***$1,882***	***$6,012***	***0.6***	***1.1***	***2.2***

The charts on the following pages summarize median historical FVT results from this year's study vs. last year's both in the aggregate and by various categories:

- By Size
  - — Small, Mid, and Large Cap companies
- By Industry
  - — Industrial, Retailing, and Hi-Tech companies

For additional comparisons, we have also shown FVT as a percentage of revenue and net income

As expected, the data illustrate that aggregate results generally show a decline in FVT run rates as a percent of market capitalization compared to last year's study, indicating that continuing limitations are being placed on the use of LTI compensation

- While there are some minor anomalies, we believe they are primarily the result of changes in the company sample this year versus last year's
- In aggregate, traditional share run rates are also exhibiting a pattern of decline; aggregate median run rate among the sample companies has fallen from 2.20% in 2003 to 1.74% in 2005
  - — These numbers are influenced by the higher annual usage by High-Tech companies

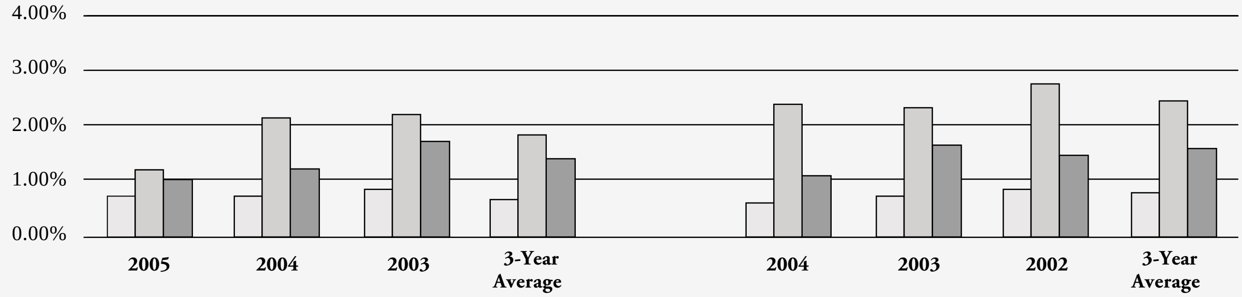
There is a negative correlation between company size and aggregate FVT granted as a percentage of market capitalization; the logic is that smaller companies need to deliver greater LTI opportunity as a percentage of market capitalization than larger companies in order to maintain competitive compensation programs

- Hi-Tech companies have significantly higher FVT than other industries, with retail companies having the next highest and industrials having the lowest
  - — Human capital-intensive companies, such as those in the Hi-Tech industry, are expected to need larger aggregate LTI budgets

With the implementation of Statement 123(R) and the ever increasing spotlight on executive compensation practices and levels, it was correctly anticipated that companies would begin to moderate the aggregate amount "spent" on long-term equity incentive programs. As you will see in the summary findings that follow, aggregate FVT is generally dropping among all companies. However, while next year's data may show an additional reduction due to the fact that in 2006 all companies were subject to FAS 123 (R) for the first time (and more companies may have adjusted their long-term grant practices in response), we do not foresee any major reduction given the extent of the focus that companies have already put on this important measure of reasonableness and competitiveness.

MEDIAN FVT % OF MARKET CAPITALIZATION — DETAIL BY SIZE

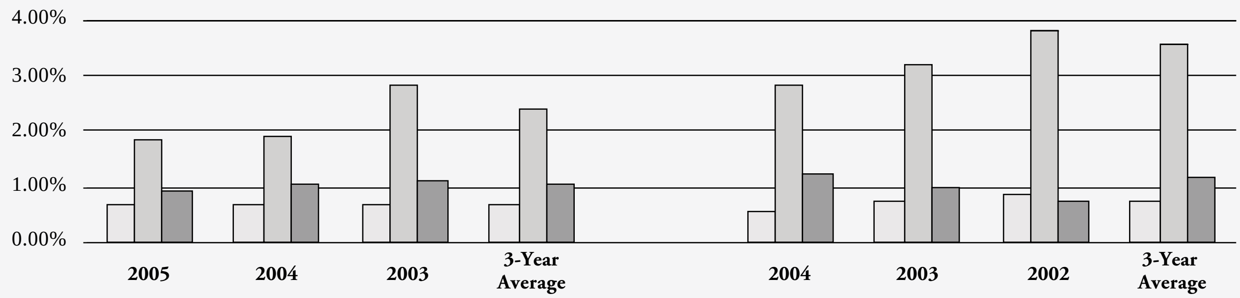
Small Cap Companies



	2005	2004	2003	3-Year Average	2004	2003	2002	3-Year Average
Industrials	0.75%	0.70%	0.88%	0.64%	0.57%	0.73%	0.86%	0.76%
Hi-Tech	1.20%	2.13%	2.20%	1.84%	2.43%	2.33%	2.79%	2.48%
Retail	1.06%	1.21%	1.70%	1.39%	1.09%	1.66%	1.49%	1.59%

MEDIAN FVT % OF MARKET CAPITALIZATION — DETAIL BY SIZE

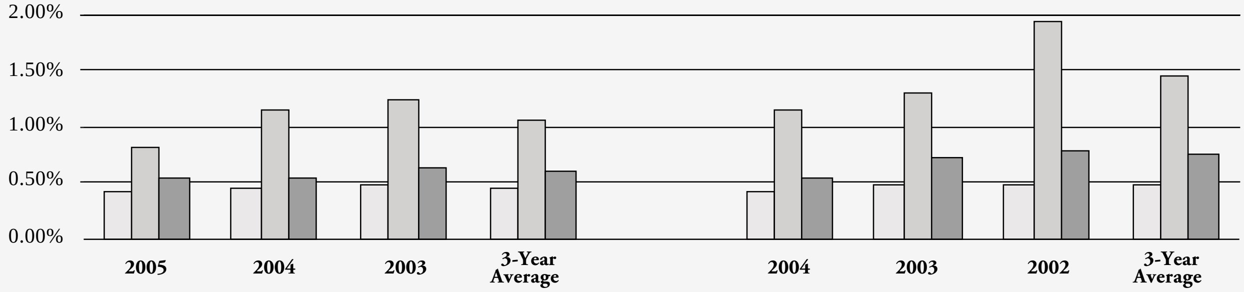
Mid Cap Companies



	2005	2004	2003	3-Year Average	2004	2003	2002	3-Year Average
Industrials	0.70%	0.67%	0.68%	0.68%	0.58%	0.77%	0.87%	0.78%
Hi-Tech	1.89%	1.95%	2.82%	2.43%	2.85%	3.22%	3.82%	3.57%
Retail	0.95%	1.05%	1.12%	1.09%	1.23%	1.02%	0.76%	1.16%

MEDIAN FVT % OF MARKET CAPITALIZATION — DETAIL BY SIZE

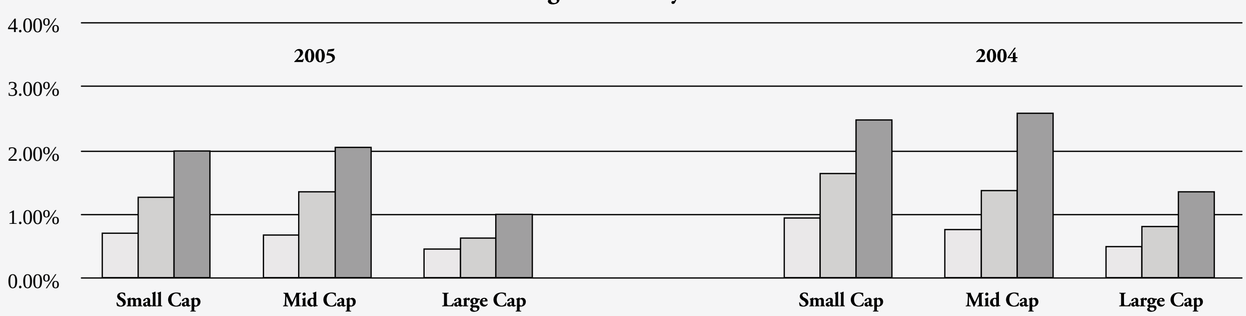
Large Cap Companies



	2005	2004	2003	3-Year Average	2004	2003	2002	3-Year Average
Industrials	0.42%	0.44%	0.49%	0.46%	0.43%	0.49%	0.49%	0.49%
Hi-Tech	0.83%	1.15%	1.25%	1.06%	1.16%	1.31%	1.93%	1.44%
Retail	0.55%	0.53%	0.63%	0.62%	0.55%	0.72%	0.79%	0.74%

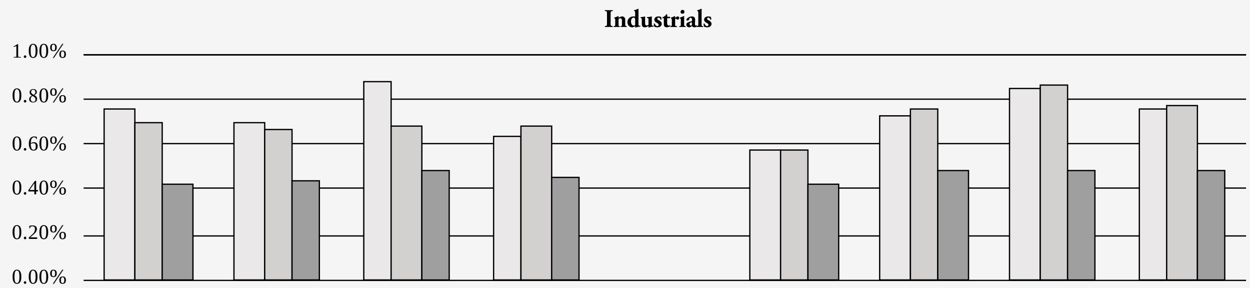
FVT % OF MARKET CAPITALIZATION

3-Year Average Results by Size: 2005 vs. 2004



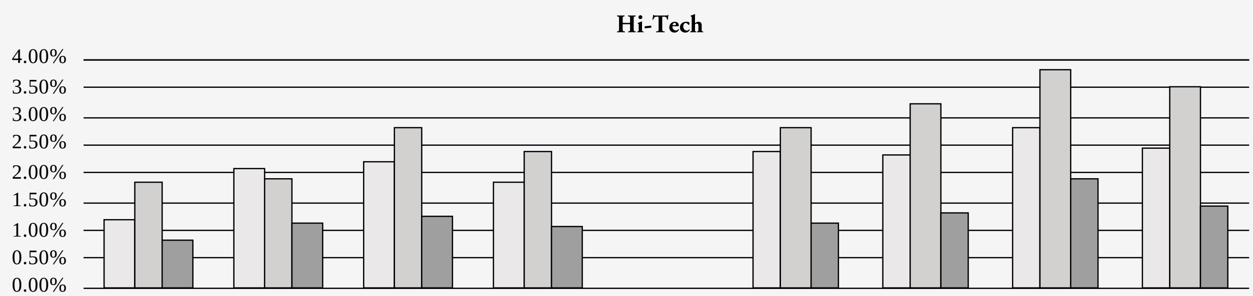
	2005 Small Cap	2005 Mid Cap	2005 Large Cap	2004 Small Cap	2004 Mid Cap	2004 Large Cap
25th Percentile	0.69%	0.66%	0.45%	0.95%	0.76%	0.49%
Median	1.27%	1.33%	0.61%	1.63%	1.36%	0.80%
75th Percentile	1.99%	2.05%	1.00%	2.48%	2.59%	1.33%

MEDIAN FVT % OF MARKET CAPITALIZATION — DETAIL BY INDUSTRY



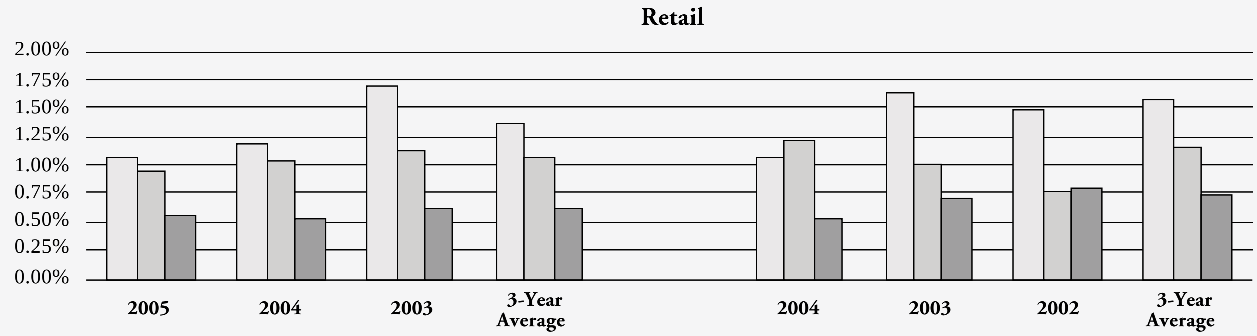
	2005	2004	2003	3-Year Average	2004	2003	2002	3-Year Average
Small Cap	0.75%	0.70%	0.88%	0.64%	0.57%	0.73%	0.86%	0.76%
Mid Cap	0.70%	0.67%	0.68%	0.68%	0.58%	0.77%	0.87%	0.78%
Large Cap	0.42%	0.44%	0.49%	0.46%	0.43%	0.49%	0.49%	0.49%

MEDIAN FVT % OF MARKET CAPITALIZATION — DETAIL BY INDUSTRY



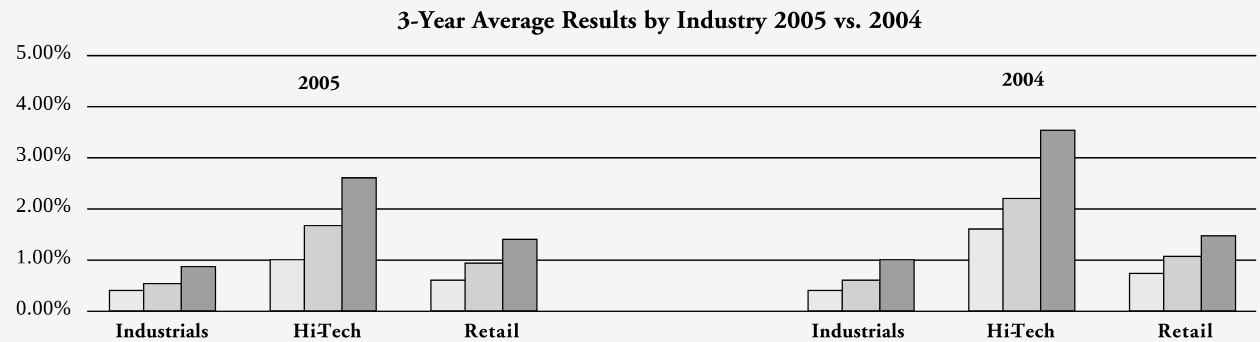
	2005	2004	2003	3-Year Average	2004	2003	2002	3-Year Average
Small Cap	1.20%	2.13%	2.20%	1.84%	2.43%	2.33%	2.79%	2.48%
Mid Cap	1.89%	1.95%	2.82%	2.43%	2.85%	3.22%	3.82%	3.57%
Large Cap	0.83%	1.15%	1.25%	1.06%	1.16%	1.31%	1.93%	1.44%

MEDIAN FVT % OF MARKET CAPITALIZATION — DETAIL BY INDUSTRY



	2005	2004	2003	3-Year Average	2004	2003	2002	3-Year Average
Small Cap	1.06%	1.21%	1.70%	1.39%	1.09%	1.66%	1.49%	1.59%
Mid Cap	0.95%	1.05%	1.12%	1.09%	1.23%	1.02%	0.76%	1.16%
Large Cap	0.55%	0.53%	0.63%	0.62%	0.55%	0.72%	0.79%	0.74%

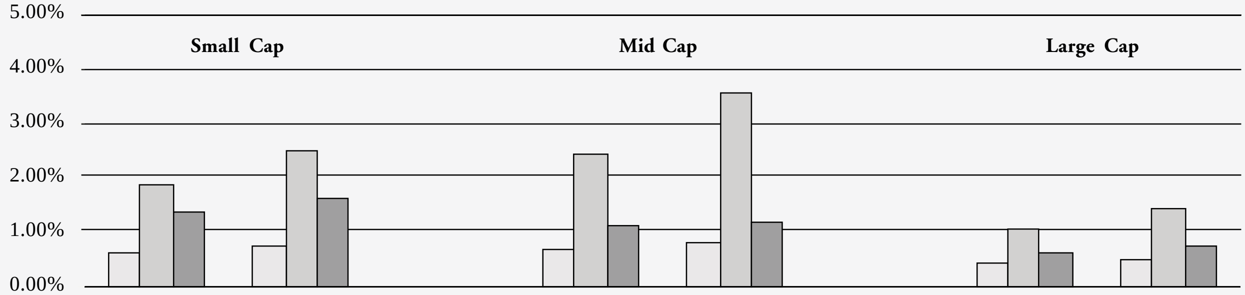
FVT % OF MARKET CAPITALIZATION



	Industrials (2005)	Hi-Tech (2005)	Retail (2005)	Industrials (2004)	Hi-Tech (2004)	Retail (2004)
25th Percentile	0.41%	1.04%	0.63%	0.39%	1.60%	0.73%
Median	0.57%	1.67%	0.92%	0.65%	2.22%	1.05%
75th Percentile	0.87%	2.61%	1.42%	1.00%	3.56%	1.46%

MEDIAN FVT % OF MARKET CAPITALIZATION – AGGREGATE REPORT RESULTS

3-Year Average Median as % of Market Cap

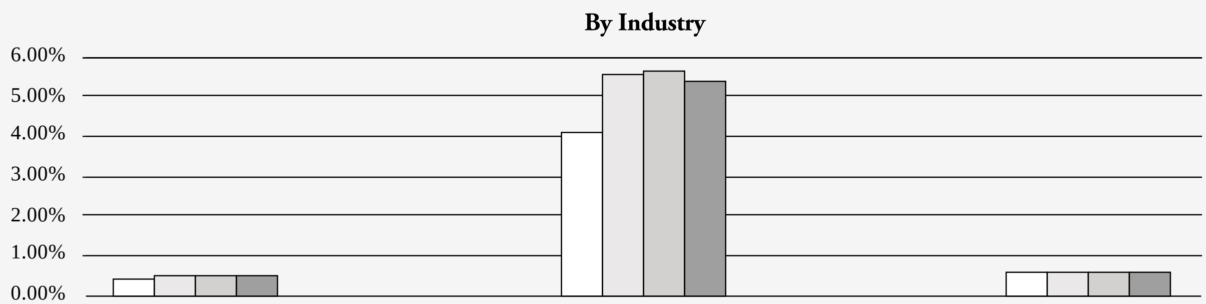


	Small Cap 2005	Small Cap 2004	Mid Cap 2005	Mid Cap 2004	Large Cap 2005	Large Cap 2004
Industrials	0.64%	0.76%	0.68%	0.78%	0.46%	0.49%
Hi-Tech	1.84%	2.48%	2.43%	3.57%	1.06%	1.44%
Retail	1.39%	1.59%	1.09%	1.16%	0.62%	0.74%

OTHER FINANCIAL MEASURES: MEDIAN FVT % OF REVENUE

	Small Cap	Mid Cap	Large Cap
2005	0.66%	1.09%	0.61%
2004	1.01%	1.14%	0.71%
2003	0.93%	0.86%	0.69%
3-Year Average	0.95%	1.18%	0.63%

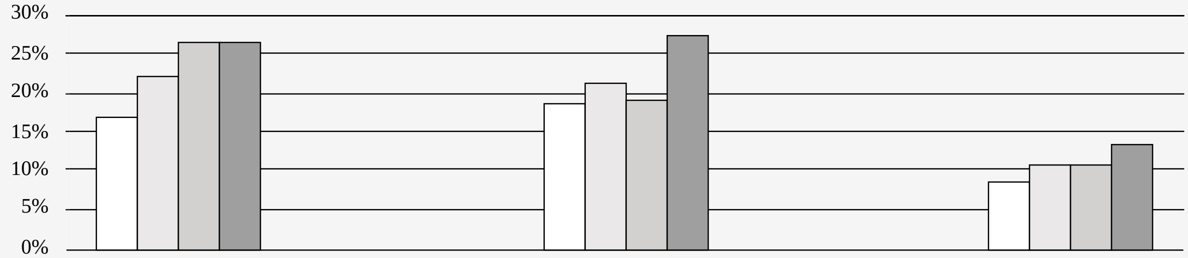
OTHER FINANCIAL MEASURES: MEDIAN FVT % OF REVENUE



	Industrials	Hi-Tech	Retail
2005	0.44%	4.12%	0.55%
2004	0.53%	5.61%	0.61%
2003	0.48%	5.69%	0.60%
3-Year Average	0.49%	5.45%	0.56%

OTHER FINANCIAL MEASURES: MEDIAN FVT % OF NET INCOME

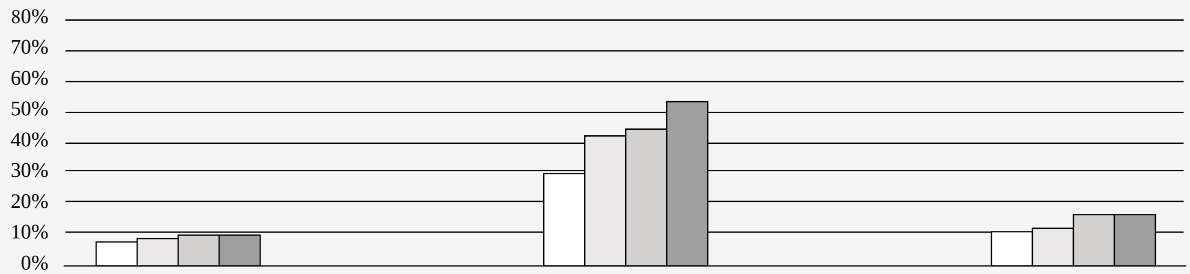
By Size



	Small Cap	Mid Cap	Large Cap
2005	17.08%	18.91%	8.50%
2004	22.16%	21.32%	10.76%
2003	26.80%	19.18%	10.95%
3-Year Average	26.80%	27.34%	13.25%

OTHER FINANCIAL MEASURES: MEDIAN FVT % OF NET INCOME

By Industry



	Industrials	Hi-Tech	Retail
2005	7.15%	30.23%	11.31%
2004	8.57%	42.10%	12.21%
2003	9.81%	44.75%	16.91%
3-Year Average	9.72%	53.17%	17.04%

APPENDIX

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- Total Compensation Reviews

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