

November 24, 1998

ISSue Compass Model

One year ago Institutional Shareholder Services (“ISS”) made available a web-based version of its proprietary stock plan valuation model, i.e., ISSue Compass (“Compass”). For a fee, companies or their consultants can use Compass to analyze the costs of their stock compensation plans for executives and directors and, through an interactive process, test alternative design features and share pool authorization levels.

ISS calculates a stock plan’s “cost” as the sum of two measures. The first, *shareholder value transfer* (“SVT”), has a 95% weighting and considers new shares being reserved, shares remaining available under prior authorizations and outstanding stock grants. This measure is a dollar amount of shareholder value that could be transferred through equity awards expressed as a percent of market capitalization. The second, *voting power dilution* (“VPD”), has a 5% weighting and measures the relative reduction in voting power that would result from shares issuable under stock plans.

Compass compares a company’s plan cost to an allowable cap, expressed as a percent of market capitalization. The cap is company specific and determined annually by ISS based on share usage by the top quartile performing companies in the same industry classification and market-cap-size bracket. ISS’s presumption is that if the top performing companies can attract and retain employees for a given amount of SVT and VPD, other companies of comparable size in that industry classification should be able to compensate their employees within a similar budget.

Regardless of a plan’s cost, ISS still automatically issues a negative vote recommendation if a plan expressly permits option repricing without shareholder approval, a company has a history of option repricing without shareholder approval and the plan is silent, or a plan permits open-ended share replenishment through market repurchases.

Changes have been made for this year’s proxy season to increase number of industry classifications from 15 to 25, clarify certain aspects of data submission and add a fourth tier to the pricing structure. The price of Compass varies according to market capitalization size, the number of stock plans being evaluated and whether one trial or multiple trials will be performed. (From our experience, multiple trials are required to adequately analyze a stock plan.)

Compass Pricing Information Before Discount*

	<u>Micro Cap</u> (<\$100M)	<u>Small Cap</u> (\$100 - \$250M)	<u>Med Cap</u> (\$251 - \$799M)	<u>Large Cap</u> (>\$800M)
Single Plan/Single Trial	\$4,000	\$5,000	\$6,000	\$7,000
Multiple Plans/Single Trial	\$5,000	\$6,000	\$7,000	\$8,000
Single Plan/Multiple Trials	\$8,000	\$10,000	\$14,000	\$16,000
Multiple Plans/Multiple Trials	\$14,000	\$16,000	\$18,000	\$20,000

* ISS is allowing our firm to again pass through a 10% discount off the Compass model prices to our clients.

There continues to be sensitivity about increasing negative shareholder votes on stock plans with high share authorization levels. Even if a company chooses to disregard ISS's vote recommendation, knowing the plan's costs under the Compass valuation model can be useful when having discussions with institutional shareholders to solicit their support for the plan.

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