

Medical Protective Co.

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RATING AAA/Stable/— (EXTREMELY STRONG)

An insurer rated 'AAA' has EXTREMELY STRONG financial security characteristics. 'AAA' is the highest Insurer Financial Strength Rating assigned by Standard & Poor's.

RELATED RATINGS

Berkshire Hathaway Inc.

Sr unsecd debt <i>Local currency</i>	AAA
CP <i>Local currency</i>	A-1+
Pfd stk <i>Local currency</i>	AAA

GEICO Corp.

Sr unsecd debt <i>Local currency</i>	AAA
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General Re Corp.

Sr unsecd debt <i>Local currency</i>	AAA
CP <i>Local currency</i>	A-1+

National Re Corp.

Sr unsecd debt <i>Local currency</i>	AAA
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Xtra Corp.

Sr unsecd debt <i>Local currency</i>	A-
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Berkshire Hathaway Life Insurance Co. of NE

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
Financial Enhancement Rating <i>Local currency</i>	AAA

Central States Indemnity Co. of Omaha

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
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Columbia Insurance Co.

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
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Continental Divide Insurance Co.

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
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Cornhusker Casualty Co.

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
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CSI Life Insurance Co.

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
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Cypress Insurance Co. (CA)

Financial Strength Rating <i>Local currency</i>	AAA/Stable/—
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General Reinsurance Corp.

Financial Strength Rating
Local currency AAA/Stable/—

Government Employees Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

Kansas Bankers Surety Co.

Financial Strength Rating
Local currency AAA/Stable/—

Koelnische Rueckversicherungs-Gesellschaft AG

Financial Strength Rating
Local currency AAA/Stable/—

National Fire & Marine Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

Financial Enhancement Rating
Local currency AAA

National Indemnity Co.

Financial Strength Rating
Local currency AAA/Stable/—

National Indemnity Co. of Mid-America

Financial Strength Rating
Local currency AAA/Stable/—

National Indemnity Co. of the South

Financial Strength Rating
Local currency AAA/Stable/—

National Liability & Fire Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

National Reinsurance Corp.

Financial Strength Rating
Local currency AAA/Stable/—

Redwood Fire & Casualty Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

Wesco-Financial Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

XTRA Inc.

Sr unsecd debt
Local currency NR

Cologne Re of Dublin (The)

Financial Strength Rating
Local currency A/—

Fairfield Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

Faraday Reinsurance Co. Ltd.

Financial Strength Rating
Local currency AAA/—/—

GEICO General Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

GEICO Indemnity Co.

Financial Strength Rating
Local currency AAA/Stable/—

General Re Life Corp.

Financial Strength Rating
Local currency AAA/—/—

General Reinsurance Africa Ltd.

Financial Strength Rating
Local currency AAA/—/—

General Reinsurance Australia Ltd.

Financial Strength Rating
Local currency AAA/Stable/—

General Reinsurance Life Australia Ltd.

Financial Strength Rating
Local currency AAA/—/—

General Reinsurance UK Ltd.

Financial Strength Rating
Local currency AAA/Stable/—

General Star Indemnity Co.

Financial Strength Rating
Local currency AAA/Stable/—

General Star National Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

Genesis Indemnity Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

Genesis Insurance Co.

Financial Strength Rating
Local currency AAA/Stable/—

***Koelnische Rueckversicherung Gesellschaft AG,
Niederlassung Wien***

Financial Strength Rating
Local currency AAA/—/—

GEICO Casualty Co.

Financial Strength Rating
Local currency AAA/Stable/—

HOLDING COMPANY

Berkshire Hathaway Inc.

GROUP MEMBERS

None

DOMICILE

Indiana

LICENSED

50 states

Company Contact

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President and Chief Executive Officer: Timothy J. Kenesey
Chief Financial Officer: Joseph A. Svitek

Major Rating Factors

Strengths:

- Core to ultimate parent company, Berkshire Hathaway Inc.
- Leading market position
- Extremely strong capitalization
- Strong earnings

Weaknesses:

- History of reserve deficiency
- Volatile nature of the medical malpractice segment

Rationale

The insurer financial strength rating on Medical Protective Co. (MedPro), a subsidiary of Columbia Insurance Co. (Columbia), is based on its core status to its ultimate parent company, Berkshire Hathaway Inc. (BRK), leading market position, extremely strong capitalization, and strong prospective earnings. Partially offsetting these positive factors are a prior history of reserve deficiency from the previous soft market cycle and the volatile nature of the medical malpractice segment.

MedPro was acquired by BRK in June 2005 to become part of the Berkshire Hathaway Insurance Group, along with GEICO Indemnity Co., General Reinsurance Corp., and National Indemnity Co. (NICO). MedPro is considered core to BRK because its business is integral to Berkshire Hathaway Insurance Group and because of BRK's strong commitment to MedPro. Through its subsidiaries, Columbia and NICO, BRK entered into a 50% loss portfolio transfer on existing net losses as of Dec. 31, 2005, and a 50% quota share reinsurance on prospective business effective Jan. 1, 2006.

MedPro is the oldest and third-largest medical malpractice writer in the U.S. based on 2005 gross written premium of \$670 million and policyholders' surplus of \$571 million. MedPro has a policyholder base of about 75,000 physicians, dentists, and other health care providers. In addition, it is the most geographically diversified of the mono-line medical professional liability writers, with its top 10 states constituting 67% of total premium.

MedPro's capital adequacy ratio at year-end 2005 was extremely strong at 300%, improved from 196% as of year-end 2004. The improvement was mainly due to good operating results and the 50% loss portfolio transfer and the 50% quota share reinsurance agreement with BRK.

MedPro's 2005 statutory income is \$78 million, reflecting a net \$112 million reserve strengthening right after the acquisition by BRK, and \$44 million current tax benefit as a result of the \$697 million loss portfolio transfer. The reserve additions were related to accident years 2002 and prior. The 2005 combined ratio is 114.6%, compared with 97.1% in 2004, 104.4% in 2003, and 124.4% in 2002. Results in 2004, 2003, and 2002 were also affected by prior year reserve strengthening, which totaled \$20 million in 2004 (1.5% of year-end reserves), \$43 million in 2003 (3.5%), and \$90 million in 2002 (9.5%). Standard & Poor's Ratings Services expects MedPro to adopt BRK's conservative reserving philosophy. With the execution of the 50% loss portfolio transfer, any future reserve deficiency or redundancy at MedPro will directly affect BRK's results.

Outlook

MedPro's performance correlates strongly to that of the medical malpractice industry as a whole. Its future profitability will be heavily influenced by the movement of the market cycle. As the industry starts to move into a soft market cycle, rates are expected to be flat or even slightly decrease. However, with stronger support from a new parent, MedPro is better positioned to take advantage of market opportunities. Standard & Poor's expects MedPro's operating performance to remain strong in 2006 and capital adequacy to be consistent with the rating.

Competitive Position: Endurance And Strength In Medical Malpractice

Table 1

Medical Protective Co./Selected Statistics					
	<i>—Year ended Dec. 31—</i>				
<i>(Mil. \$)</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Total revenue	560.8	627.7	768.8	509.8	389.8
Net income	77.5	89.2	46.0	(13.70)	73.6
Combined ratio (%)	114.6	97.1	104.4	124.4	93.5
Return on revenue (%)	6.0	14.8	4.5	(12.60)	20.8
Total assets	2,254.9	2,172.6	2,133.1	1,747.7	1,384.0
Statutory surplus	571.3	510.8	442.9	401.7	408.2
Capital adequacy ratio (%)	300.1	225.3	146.0	188.0	272.0

Table 2

Medical Protective Co./Business Statistics					
	—Year ended Dec. 31—				
(Mil. \$)	2005	2004	2003	2002	2001
Medical malpractice/claims made	152.2	295.7	428.9	316.0	179.0
Medical malpractice/occurrence	198.6	227.2	281.1	219.5	163.0
Other liability/occurrence	3.1	3.1	2.8	2.2	2.4
Other liability/claims made	0.3	0.3	0.7	0.8	0.5
Total net premiums written	354.2	526.3	713.5	538.4	345.0
Total change in net premiums written (%)	(32.70)	(26.20)	32.5	56.1	29.1

Established in 1899, MedPro is the oldest medical malpractice company in the U.S. Since June 2005, MedPro has been a wholly owned subsidiary of Columbia Insurance Co., a subsidiary of BRK. The company is domiciled in Indiana. Based on direct premium written of \$670 million and policyholders' surplus of \$571 million in 2005, MedPro ranks the third-largest medical malpractice writer in the U.S. MedPro has a policyholder base of about 75,000 physicians and dentists. MedPro's primary focus has been individual physicians, small groups, dentists, and medical service personnel. Physicians make up 91% of the premium volume, dentists 6%, and hospitals the remaining 3%. By policy count, physicians make up 56%, dentists 43%, and hospitals less than 1%.

MedPro's book of business consists primarily of groups of fewer than 10 doctors (80% of premium in 2004), groups of 10-24 doctors (9%), groups of 25-50 doctors (5%), and larger groups (7%).

MedPro distributes its products through a direct sales force strategically located in key markets as well as independent agents. Of all business, 30% is distributed on a direct basis, with the remaining business produced by agents or brokers. These agents have strong ties to the policyholders. No independent agent generates more than 5% of the business volume, so MedPro's sales distribution is well-diversified.

MedPro's book of business is well-diversified geographically. Currently, the company is licensed to write professional liability business in 50 states, and 2005 premium totaled more than \$1 million in 37 states. The company is one of the top five medical malpractice providers in each of its top five states. The company's historical concentration in Texas of about 30% of the book was reduced to about 14.9% in 2005. The top five states in earned premiums are Texas (14.9%), Ohio (13.7%), Pennsylvania (12.9%), Kentucky (5.4%), and Indiana (5.4%). The top 10 states in premium volume make up 67% of MedPro's total premium. Standard & Poor's believes MedPro's broad premium base allows the company to withstand adverse regulatory or economic difficulties that could affect one or more of its regions.

Medical malpractice premium rates have experienced wide swings in the past. A period of low rates combined with increasing losses and undisciplined underwriting has led to poor results across the industry and the departure of a few of MedPro's key competitors from the market. This in turn resulted in capacity constraints leading to a hardening of prices across the country since 2001. Rate increases for MedPro averaged 30% in 2004 and moderated to 15% in 2005.

MedPro's premium has grown rapidly since the late 1990s, partly from significantly increased pricing in the medical malpractice segment and partly from exposure growth. Overall net written premium increased 32.5% in 2003 to \$712 million (after a 56% increase to \$538.4 million in 2002

from \$345 million in 2001) before dropping to \$526 million in 2004 after the company entered into a 25% quota share agreement with external reinsurers and a planned reduction in business volume. These measures were instituted in the face of capital constraints as a result of rapid premium growth, reserve strengthening in 2002 and 2003, and dividend payments to its then-parent, GE Insurance Solutions Corp. Because of such capital constraints, MedPro wrote less business at the peak of the hard market cycle.

Prospective

BRK is strongly committed to protecting and enhancing the MedPro franchise. Through its subsidiaries Columbia and NICO, BRK entered into a 50% loss portfolio transfer on existing net losses and a 50% quota share reinsurance on prospective business effective Jan. 1, 2006, as a form of explicit support. With a stronger capital base, MedPro is better positioned to take advantage of market opportunities. It will also have the capacity to take on more risks and absorb more volatility, which is the nature of this business.

Management And Corporate Strategy: Maintaining High Underwriting Standards And Independent Management Team

After the acquisition by BRK, MedPro's management team remains intact, including those who were with GE. BRK is not expected to provide stand-alone management of MedPro, but does have experienced insurance professionals on MedPro's board of directors. Of the middle managers, 68% have more than 10 years of industry experience in medical malpractice. From 2000 through 2003, MedPro, capitalizing on the capacity constraints of its competitors, expanded its book of business while maintaining its high underwriting standards. MedPro's current goal is to leverage its position as the strongest and the most balanced medical malpractice insurer and strive for rate adequacy in states through annual rate reviews and filings.

Operational management

MedPro recognizes the state- and venue-specific nature of medical malpractice and manages its business by region. While the pricing and underwriting are centralized in the home office, each region has a dedicated actuary, underwriter, claims adjuster, and sales manager. MedPro keeps close contact with customers, agents, and departments of insurance. Complementing MedPro's regional approach is its national presence, which allows the company to remain on top of trends and the development of tort reform issues. It retains a conservative approach to rate-setting, and Standard & Poor's expects that to continue.

Although MedPro has traditionally been an occurrence writer, recent expansion has been in claims-made policies. The claims-made policy allows MedPro to manage its tail diligently in more challenging regulatory environments.

Financial management

MedPro's financial management has always been conservative, with its pricing reflecting the inherent risk associated with the business that it writes. Under BRK, MedPro is expected to reserve more conservatively to better absorb volatility. Standard & Poor's believes that MedPro's emphasis on

profitability, combined with the increased risk profile of medical malpractice exposures, will result in an increased focus on underwriting profitability.

Accounting

MedPro was recently acquired by BRK from GE Insurance Solutions. MedPro does not file separate GAAP statements; however, it does file its own statutory statements. Standard & Poor's is unaware of any regulatory inquiry into MedPro's financial reporting. All statutory statements were filed on a timely basis. Standard & Poor's believes that MedPro's financial reporting is reasonable and within industry norms.

Operating Performance: Consistently Outperforming The Industry

Table 3

Medical Protective Co./Operating Statistics					
	— Year ended Dec. 31—				
(Mil. \$)	2005	2004	2003	2002	2001
Total revenues	560.8	627.7	768.8	509.8	389.8
Pretax operating income (excluding realized gains)	33.8	92.6	34.3	(64.20)	81.2
Net income	77.5	89.2	46.0	(13.70)	73.6
Return on revenue (%)	6.0	14.8	4.5	(12.60)	20.8
Return on assets (%)	3.5	4.1	2.4	(0.90)	5.5
Return on statutory surplus (%)	14.3	18.7	10.9	(3.40)	18.9
Loss ratio (%)	98.8	83.1	89.0	109.5	77.5
Expense ratio (%)	15.8	14.0	15.4	14.9	16.1
Combined ratio (%)	114.6	97.1	104.4	124.4	93.5
Operating ratio (%)	0.9	15.6	4.5	(11.60)	25.4
Portfolio performance					
Net investment income	74.6	70.5	62.9	57.7	61.9
Net yield (%)	3.7	3.6	3.6	4.0	5.0
Net capital gain or loss	4.2	17.6	29.3	47.2	12.4
Portfolio composition					
Cash and short-term investments (%)	33.5	2.4	4.9	18.7	6.8
Bonds (%)	65.8	95.8	94.1	80.1	91.6
Preferred and common stocks (%)	0.0	0.0	0.3	0.4	0.7
Real estate and mortgage loans (%)	0.5	0.6	0.6	0.8	1.0
Other invested assets (%)	0.2	1.2	0.0	0.0	0.0
Invested assets to total assets (%)	93.2	90.1	90.7	90.6	92.1
Average maturity of bond portfolio (years)	5.8	10.7	7.4	6.8	7.8

MedPro's 2005 statutory income is \$78 million, reflecting a net \$112 million reserve strengthening right after the acquisition by BRK, and \$44 million current tax benefit as a result of the \$697 million loss portfolio transfer. The reserve additions were related to accident years 2002 and prior. The 2005 combined ratio is 114.6%, compared with 97.1% in 2004, 104.4% in 2003, and 124.4% in 2002. Results in 2004, 2003, and 2002 were also affected by prior year reserve strengthening, which totaled

\$20 million in 2004 (1.5% of year-end reserves), \$43 million in 2003 (3.5%), and \$90 million in 2002 (9.5%). MedPro's combined ratio for current year business is at a very strong 89.9%. Going forward, Standard & Poor's expects MedPro to adopt BRK's conservative reserving philosophy. With the execution of the 50% loss portfolio transfer any future reserve deficiency or redundancy at MedPro will directly affect BRK's results.

MedPro's expense ratios are consistently lower than its peers'. Investment income has been a critical component of MedPro's profitability because of the long tails of the reserves. The average net yield of the investment portfolio of 3.6% in 2004 and 2005 reflects the yields in the fixed-income market, which, at that time, were at historical lows.

Historical

Earnings performance before 2002 was very strong as measured by an ROR of 18.1% in 1999, 31.1% in 2000, and 20.8% in 2001. Earnings were supported by favorable combined ratios of less than 110% and strong investment income benefiting from reasonable fixed-income yields on an extremely strong asset base. Reserve releases of \$96 million in 2000 and \$69 million in 2001 also enhanced earnings performance.

Prospective

Standard & Poor's expects MedPro's revenue to be flat in 2006 or increase slightly, pretax ROR to exceed 10%, and a combined ratio with respect to current business of less than 100%.

Enterprise Risk Management

The company has strong risk management controls in the area of underwriting and pricing and is constantly evaluating the business to identify new risks. Risk management culture is strong in that at least once per month senior management has an open forum meeting to discuss any issue that has been identified as having the potential to materially affect the loss ratio. We view the overall enterprise risk management at MedPro as adequate.

Investments And Liquidity: Conservative With Minimal Risk

Table 4

Medical Protective Co./Financial Statistics					
	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Total assets	2,254.9	2,172.6	2,133.1	1,747.7	1,384.0
Statutory surplus	571.3	510.8	442.9	401.7	408.2
Capital adequacy ratio (%)	300.1	196.4	146.0	188.0	272.0
Company action level to NAIC risk-based capital ratio (%)	982.0	479.2	427.5	437.1	536.0
Loss and loss adjustment expense reserves/statutory surplus (x)	1.2	2.5	2.8	2.3	1.8
Reinsurance utilization ratio (%)	26.0	27.5	13.0	4.0	0.0
Reinsurance recoverables to surplus (%)	96.3	80.0	52.6	26.4	28.1
Underwriting cash flow ratio (%)	118.2	99.1	167.0	137.2	116.3
Operating cash flow ratio (%)	131.5	119.7	189.2	158.7	138.7

MedPro maintains a very conservative investment profile. About 99% of MedPro's \$2 billion in assets are in investment grade bonds and cash equivalents at year-end 2005. 77% are in tax-exempt municipal bonds and 18% in corporate bonds. Their duration is 6.5 years. Standard & Poor's believes that management is committed to minimizing the risk in its investment portfolio. Great emphasis will continue to be placed on liquidity and credit quality with the aim of maximizing yield. BRK will assume responsibility for the management of MedPro's investment portfolio.

Strong premium growth in 2002-2003 has improved MedPro's liquidity. Operating cash flows have averaged more than 100% since 1999 and a strong 158.7% and 189.2% in 2002 and 2003, respectively. Operating cash flow in 2005 stood at 139.5%, improved from 120% in 2004. MedPro's conservative investments in bonds and cash also help its liquidity position. Standard & Poor's believes the relationship with the parent, BRK, offers an additional liquidity buffer.

Capitalization: Extremely Strong And Improved From Good Operating Results

MedPro's capital adequacy ratio at year-end 2005 is extremely strong at 300%, improved from 196% as of year-end 2004. The improvement was mainly due to good operating results and the 50% loss portfolio transfer and the 50% quota share reinsurance agreement with BRK. The low CARs of 2002 and 2003 are the result of reserve strengthening and premium growth fueled by significant rate increases.

MedPro's direct premiums had grown rapidly from the time it was acquired by GE Insurance Solutions until 2004, when MedPro shrunk its portfolio significantly as capital became constrained. Although part of this growth can be attributed to significantly increased pricing in the medical malpractice segment, growth in exposure has also occurred. Overall net premiums increased 32.5% in 2003 to \$712 million and 56% in 2002 to \$538.4 million. In 2004, net premiums written decreased to \$526 million.

Reserves

MedPro strengthened its reserves by a net \$112 million (8.6% of year-end 2004 reserves) after it was acquired by BRK in 2005. These reserve additions were related to accident years 2002 and prior. Adverse loss development for prior accident years was \$90 million in 2002 (9.5% of year-end reserves), \$43 million in 2003 (3.5%), and \$20 million in 2004 (1.5%). Under BRK, MedPro is expected to reserve more conservatively to better absorb volatility. With the execution of the 50% loss portfolio transfer any future reserve deficiency or redundancy at MedPro will directly affect BRK's results.

Reinsurance

Before its purchase by GE Insurance Solutions in 1998, MedPro maintained extensive reinsurance protection with highly rated reinsurers. From Jan. 1, 1999, to March 30, 2002, MedPro consolidated its reinsurance programs with GE Insurance Solutions. On April 1, 2002, MedPro purchased reinsurance from the external marketplace. At that time, the company maintained a net retention of \$2 million on all programs. In addition to an \$8 million excess \$2 million per event cover, in 2005 the company purchased a \$10 million excess of \$10 million catastrophe cover. In 2004, a net line 25% quota share agreement was implemented. Effective Dec. 31, 2005, NICO and Columbia entered into a loss portfolio reinsurance contract with MedPro that provides for a 50% loss portfolio transfer on existing net losses as of Dec. 31, 2005, with an aggregate limit of three times the ceded reserves and a

quotA-share reinsurance contract that provides for a 50% reinsurance cover on net losses from business transacted on or after Jan. 1, 2006, subject to three times the ceded earned premium for each accident year.

Financial Flexibility: Linked To Parent's, No Debt Assumed

MedPro's financial flexibility is directly linked to BRK's. Currently, MedPro has not assumed any debt and is not expected to in the future.

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