

## Client Briefing

### Institutional Shareholder Services' 2007 U.S. Voting Policy Updates

---

On November 15, 2006, Institutional Shareholder Services (ISS) updated its U.S. Corporate Governance Policy Updates for 2007 (2007 Voting Policy Updates). These updates generally are effective for shareholder meetings on or after February 1, 2007. The 2007 Voting Policy Updates along with the Canadian and International Corporate Governance Policy 2007 Updates are available at ISS' Policy Gateway area on its website at <http://www.issproxy.com/policy/index.jsp>

ISS also made changes to its Corporate Governance Quotient (CGQ) ratings criteria to bring them more in line with the 2007 Voting Policy Updates (which are detailed on the last page of the same). Generally, the changes to the CGQ ratings criteria became effective starting in November 2006.

## U.S. Voting Policy Updates

The following summary details the ISS U.S. Voting Policy Updates for 2007 that involve executive compensation (other ISS policies were updated in the 2007 Voting Policy Updates, including a revised performance test for directors, but are not covered by this *Client Briefing*).

### Binomial Model: Updates to Shareholder Value Transfer Calculation Methodology

#### Current Policy

For purposes of valuing equity compensation plan proposals under ISS' proprietary binomial option pricing model (ISSue Compass), ISS applies the following policies:

- **Valuation of full-value awards** – Valued at a 10% to 20% discount to a company's 200-day average stock price
- **Forfeiture Rate Discount for Options** – Option values are discounted up to 8% based on a company's 3-year average forfeiture rate
- **Market Capitalization** – Determined using common shares outstanding plus shares underlying outstanding convertible debt, convertible equity, and warrants, multiplied by the company's 200-day average stock price
- **Rounding of SVT, VPD, and Allowable Caps** – Shareholder Value Transfer as a percentage of market capitalization (SVT), Voting Power Dilution (VPD), and Allowable Caps (AC) are rounded to the nearest 2<sup>nd</sup> decimal place. In order to pass the ISS allowable cap test, SVT must be less than AC.

---

#### New Policy

For purposes of valuing equity compensation plan proposals under the ISSue Compass model, ISS will apply the following policies:

- **Valuation of full-value awards** – Valued at a company's 200-day average stock price
- **Forfeiture Rate Discount for Options** – Option values will no longer be discounted for a company's 3-year average forfeiture rate
- **Market Capitalization** – Determined using only the common shares outstanding multiplied by the company's 200-day average stock price; convertible debt, convertible equity and warrants have been eliminated from the calculation of market capitalization.

## Binomial Model: Updates to Shareholder Value Transfer Calculation Methodology

- **Rounding of SVT, VPD, and Allowable Caps** – SVT, VPD, and AC will be rounded (up or down) to the nearest whole number. Additionally, in cases where SVT = AC, a proposal will pass the ISS allowable cap test.

### Key Changes

- **Valuation of full-value awards** – discounted valuation of full-value awards (FVAs) was eliminated
- **Forfeiture Rate Discount for Options** – forfeiture discounts on options eliminated
- **Market Capitalization** – convertible debt, convertible equity and warrants were eliminated from the calculation of market capitalization for purposes of SVT. However, these will still be included when determining VPD, which ISS reports in its proxy analyses, but is no longer directly factored into its vote recommendations on equity compensation plan proposals.
- **Rounding of SVT, VPD, and Allowable Caps** – SVT, VPD, and AC will be rounded (up or down) to the nearest whole number. Additionally, in cases where SVT = AC, a proposal will pass the ISS allowable cap test.

### ISS Rationale

Generally, ISS indicates these changes were justified because they bring greater consistency between the ISS valuation methodology and the FAS 123R valuation methodology.

ISS also indicates that elimination of the forfeiture rate discount for stock options is justified because the vast majority of equity compensation plans provide for share recycling (forfeited options are returned to the plan's share authorization and can be granted again) and so shares are never permanently forfeited once a plan is approved by shareholders.

ISS indicates that elimination of convertible debt and equity as well as warrants from the calculation of a company's market capitalization makes its methodology more consistent with Standard & Poor's Compustat, Bloomberg and Yahoo! Finance.

As for the rounding of SVT, VPD and ACs, ISS indicates that this will "eliminate a degree of "false precision" in the current policy." Additionally, ISS indicates that under the new policy, proposals will "no longer pass or fail by a marginal amount."

### EXEQUITY Comment

The ISSue Compass model has been updated to reflect these changes as well as the new Burn Rate Table (*see* Burn Rate Policy below for more details) and for the December 1, 2006 quarterly data update (which included an update to the regression formulas ISS uses to determine company-specific ACs).

These changes in ISS policies will significantly impact ISSue Compass modeling. Generally, these changes to the ISSue Compass model will cause the cost assessed by the model to increase; however, the rounding of SVT, VPD and ACs will reduce the reported cost for proposals, in some cases *significantly*. Thus, if a company is taking an equity compensation plan proposal to shareholders this proxy season, it should ensure it updates its ISS modeling using the updated model to determine the impact, if any, on its equity plan proposal.

The key impacts to ISSue Compass modeling are as follows:

- SVT will be higher due to the removal of the discount on FVAs – both those granted and outstanding as well as those that can be granted under existing and proposed plans.
- SVT will be higher due to the elimination of the forfeiture discount on stock options – both those granted and outstanding as well as those that can be

## Binomial Model: Updates to Shareholder Value Transfer Calculation Methodology

granted under existing and proposed plans.

- The denominator for ISS' SVT calculation will be smaller for companies that have convertible equity, convertible debt and warrants, which will lead to higher SVT.
- SVT, VPD and AC will be rounded up or down to the nearest whole number, which will generally benefit companies because they will be able to have a higher SVT than under the old policies and still be able to pass the ISSue Compass model.

We think ISS is incorrect in stating that this will cause proposals to pass or fail "by a more than marginal amount." Anytime that a precise line is drawn, some will pass or fail by a small margin. What this policy in effect does is increase the AC for those companies whose AC is rounded up. For example, a 7.51% AC will be rounded up to an 8% AC under the new policy, which will allow a company to have its SVT go as high as 8.49% and still pass the ISSue Compass model. However, under the old policies, a 7.51% AC would allow a company to have its SVT go only up to 7.50% to pass the model. With the new rounding policy, an AC of 7.51% will enable companies to have SVT of up to 8.49% and still pass the model, which represents an effective increase in the AC of 98 basis points. With this policy then, more companies should pass the ISSue Compass model leaving aside the impact of other changes to the ISSue Compass model, such as a general downward trend in SVT (*see* Exhibit 1 – Trends in Average Shareholder Value Transfer by Industry), as well as how ISS will adjust the ACs in order to achieve its targeted failure rate of 30% for all equity compensation plan proposals, *i.e.*, 30% of equity proposals fail the ISSue Compass model and receive a WITHHOLD vote recommendation from ISS. (We are aware of one company whose AC dropped by over 180 basis points and another whose AC dropped by more than 600 basis points after the changes to the ISSue Compass model and update of share usage data made after December 1, 2006).

Because these changes will generally increase the cost of equity plans under the ISSue Compass model, companies face smaller share authorizations for their equity plans if they need a favorable ISS vote recommendation. Thus, we believe more companies will consider adopting plans that either (1) treat all shares as FVAs and contain liberal share counting provisions, or (2) count stock options or SARs differently than FVAs (for example, stock options or SARs count as 1 share against the plan's share pool while FVAs count as 2 shares against the share pool), using a **Flexible Share Pool™** provision. Our principals helped pioneer this concept and believe more companies will implement it in their equity plans as a way to increase the plan's flexibility in accordance with ISS policies, particularly where the model values options at significant discounts to FVAs. If you have any questions regarding **Flexible Share Pools™** or how and when they could be used in your equity compensation plans, we would be happy to discuss them with you.

## Burn Rate Policy

### Current Policy

ISS will recommend a vote AGAINST an equity compensation plan proposal if a company's three-year average burn rate (as calculated in accordance with ISS' methodology) is greater than both (i) its GICS code industry group's mean three-year average burn rate *plus* one standard deviation [as set forth in tables published by ISS annually for both Russell 3000 and Non-Russell 3000 companies], and (ii) two percent (2%) of common shares outstanding.

ISS evaluates burn rate on a stock option share equivalent basis. Thus, FVAs are assigned a premium, which depends on a company's annual volatility as follows:

**Burn Rate Policy**

**FVA Premium Chart**

Volatility Characteristics	Annual Stock Price Volatility	Premium
High annual volatility	53% and higher	1 FVA counts as 1.5 options
Moderate annual volatility	25% – 52%	1 FVA counts as 2.0 options
Low annual volatility	Less than 25%	1 FVA counts as 4.0 options

ISS' burn rate methodology can be summarized by the following formula:

Annual Burn Rate = (A +B) / C, where:

A = # Stock Options and SARs granted

B = # FVAs granted x FVA Premium

C = # of Common Shares Outstanding at Fiscal Year End

ISS measures the annual burn rate for each of the past three years and averages them together to determine a company's three-year average burn rate for purposes of this policy.

***New Policy***

ISS has not changed this policy other than to issue an updated Burn Rate Table for the 2007 Proxy Season, *see* Exhibit 2 attached hereto.

ISS has kept the FVA premium chart the same as shown above.

***Key Changes***

ISS issued an updated Burn Rate Table for the 2007 Proxy Season, *see* Exhibit 2 attached hereto.

***ISS Rationale***

ISS indicated in 2005 when it first adopted the Burn Rate Policy that it would periodically update the Burn Rate table for the GICS industry groups.

***EXEQUITY Comment***

Since adopting this policy, ISS has updated the Burn Rate Table annually. However, it has not updated the FVA Premium table since the policy was adopted.

One of the weaknesses of ISS' Burn Rate Policy is that it takes an overly simplistic approach in its treatment of FVAs. For the sake of simplicity, ISS has three FVA premiums based a company's latest annual volatility (actually, it is based on a company's 200-day volatility that is then annualized). While this makes it easier to calculate, it applies the same FVA premium to all of a company's FVA grants during the past three years, regardless of whether the company had a different annual volatility for the year in which such awards were granted. For most companies we expect this would have only a negligible impact on ISS' Burn Rate analysis for the company.

A more disturbing weakness of this approach is that the FVA premiums assigned by the chart generally are not the same as those generated by the ISSue Compass model, which is used to value equity compensation plan proposals. As a result, companies that have a FVA premium of 1 FVA for 4 options under the Burn Rate Policy may have a value premium of 1 FVA for 2.25 options under the ISSue Compass model. Thus, their Burn Rate as calculated by ISS would be less if the ISSue Compass model-suggested FVA premium were used.

The FVA premium portion of this policy can be (and often is) at odds with the premiums for FVAs generated by ISS' ISSue Compass model. That being said, the FVA premium chart allows companies that are seeking shareholder approval of an equity compensation plan to have some certainty about the application of the ISS Burn Rate Policy to the awards they have granted during the past three years.

## Burn Rate Policy

Finally, the publicly-available definition for burn rate that ISS uses in calculating the three-year average median burn rates for the various GICS industry groups<sup>1</sup> appears to simply count all equity awards granted in a year and divide by the common shares outstanding as of fiscal year end, *i.e.*, it appears that no FVA premium is being applied. However, ISS indicated to us that the figures in the Burn Rate tables were calculated by applying an FVA premium to FVAs. We urge ISS to clarify its policies so this point is more clearly stated in its burn rate policy.

We think ISS should give some thought to introducing a new FVA premium chart for the 2008 proxy season that looks at the actual FVA premiums for companies based on their GICS code groups as determined under the ISSue Compass model during 2007 and perhaps also looks at volatility over the full three-year period being measured. This may produce FVA premiums that will be more consistent with other applicable ISS policies and provide a better reflection of actual premiums based on industry group. Additionally, ISS should ensure that the 2008 Burn Rate tables for Russell 3000 and Non-Russell 3000 companies clearly shows that an FVA premium was applied, e.g., that FVAs were counted as more than a single share when determining the historical burn rates used to establish ISS' applicable burn rates.

## Poor Pay Practices

### Current Policy

In 2006, ISS adopted a formal policy to recommend WITHHOLDing votes from compensation committee members if the company had poor compensation practices.

Poor compensation practices include:

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

### New Policy

ISS may recommend a WITHHOLD vote from the compensation committee and/or the CEO on a CASE-BY-CASE basis where it identifies poor pay practices. Additionally, ISS may consider recommending a WITHHOLD vote from the entire board if the whole board was involved in and contributed to the egregious compensation problems.

ISS then provided a list of the best executive pay practices as well as poor pay practices.

#### ISS' list of best executive pay practices included:

- **Employment contracts** – Only use in limited circumstances and for a short period. Should not have automatic renewal features, but should have a specified termination date.
- **Severance agreements** – Should not be so appealing that they become incentives for executives to be terminated. Should exclude excise tax gross-ups. Should be reasonable and not overly generous to executive (severance multiples of 3x or

<sup>1</sup> See the definition of burn rate given by ISS in Footnote 1, p. 15, of the *ISS US Corporate Governance Policy 2005 Updates*, "Burn rate is calculated as the total number of equity awards (in the form of stock awards and stock options) granted in any given year divided by the number of common shares outstanding. The gross number of equity awards is considered in the burn rate calculation and is not discounted by cancelled or forfeited shares."

### Poor Pay Practices

less, use pro-rated target/average historical bonus and not maximum bonus). Should not be triggered by failure to renew an employment contract or for termination caused by poor performance.

- **Change-in-control payments** – Should only be made when there is a significant change in company ownership structure and when there is a loss of employment or substantial change in job duties. Should exclude excise tax gross-ups and prevent acceleration of vesting of equity awards upon a CIC unless subject to a double trigger.
- **Supplemental executive retirement plans (SERPs)** – Should eliminate sweeteners that can increase the SERP value, *e.g.*, additional years of service credited for pension calculation, inclusion of variable pay (bonuses and equity awards) into the formulas. Additionally, pension formulas should not use extraordinary bonuses paid close to retirement nor the maximum level of compensation earned.

#### ISS' examples of poor pay practices include:

- Egregious employment contracts (containing multi-year guarantees for bonuses and grants);
- Excessive perks that dominate compensation (tax gross-ups for personal use of corporate aircraft);
- Huge bonus payouts without justifiable performance linkage or proper disclosure;
- Performance metrics that are changed (canceled or replaced during the performance period without adequate explanation of the action and the link to performance);
- Egregious pension/SERP payouts;
- New CEO awarded an overly generous new hire package;
- Excessive severance provisions;
- Change in control payouts without loss of job or substantial diminution of job duties;
- Internal pay disparity;
- Options backdating (covered in a new, separate policy); and
- Other excessive compensation payouts or poor pay practices at the company.

---

#### ISS Rationale

ISS indicated that this policy was revised in part due to the new proxy disclosure rules that were issued by the SEC. ISS indicates that the policy takes a balanced approach in that it shows investors and companies examples of what ISS considers to be best and worst executive compensation practices.

ISS extended the “withhold votes” portion of the policy beyond members of the compensation committee because the CEO can exert tremendous influence on their Boards to approve their desired pay packages.

---

#### EXEQUITY Comment

The problem we see with this policy is that it does little to give companies any hard and fast guidance on what ISS would deem to be worst pay practices that would trigger withhold vote recommendations. Because no actual limits are established, even on a relative basis to comparator companies, we believe it will be difficult for companies to take this policy into account when making executive compensation decisions. Yes, if something shocks the conscience, it probably would trigger the withhold votes from ISS. From ISS' perspective, this type of ambiguity is good because it forces companies that want to be mindful of this policy to be a bit more conservative in their pay decisions than they otherwise might be if they knew exactly where the line was drawn. However, from a practical perspective, without knowing where the line is, some companies may decide to proceed with their executive compensation decisions without trying to factor in the impact of this policy which they would (rightfully from our

### Poor Pay Practices

perspective) conclude is unknown until after the fact and therefore cannot be evaluated prospectively while executive compensation decisions are being made.

### Options Backdating

#### *Current Policy*

Options backdating is considered a poor compensation practice and ISS recommends WITHHOLDING votes from compensation committee members who were present at the time of the occurrence.

#### *New Policy*

ISS may recommend WITHHOLDING votes from the compensation committee, depending on the severity of the practices and the subsequent corrective actions on the part of the board. ISS will adopt a CASE-BY-CASE vote recommendation approach to the options backdating issue.

In determining whether to recommend withholding votes from the compensation committee members who oversaw the questionable grant practices or current members who fail to respond to the issue proactively, ISS will consider (but not limited to) the following factors:

- Reason and motive for the options backdating issue, such as inadvertent vs. deliberate grant date changes;
- Length of time of options backdating;
- Size of restatement due to options backdating;
- Corrective actions taken by the board or compensation committee, such as canceling or repricing backdated options, or recoupment of option gains on backdated grants;
- Adoption of a grant policy that prohibits backdating, and creation of a fixed grant schedule or window period for equity grants going forward.

#### *ISS Rationale*

ISS views this policy as justified given the serious implications from backdating including financial restatements, delisting of companies, and/or termination of executives or directors.

#### *EXEQUITY Comment*

Since this policy is being applied to past actions and decisions, it is unlikely that the policy will serve to shape future company and board behavior in regard to options backdating. We applaud ISS for utilizing a CASE-BY-CASE analysis so as not to treat all backdating cases the same, *e.g.*, sloppy administration versus fraud.

### Performance-based Equity Shareholder Proposals

#### *Current Policy*

ISS evaluates shareholder proposals to grant performance-based options on a CASE-BY-CASE basis. ISS generally recommends FOR shareholder proposals advocating the use of performance-based equity awards, such as indexed options, premium-priced options, performance-vested awards, unless:

- The proposal is overly restrictive (*e.g.*, awards to all employees must be performance-based or all awards to top executives must be a particular type); or
- The company demonstrates that it is using a “substantial” portion (at least 50% of shares awarded to those executives for that fiscal year) of performance-based

## Performance-based Equity Shareholder Proposals

awards for its top executives (the top 5 most highly compensated officers).

### *New Policy*

In cases where the shareholder proposal requests that a significant amount of future long-term incentive compensation awarded to senior executives shall be performance-based and requests that the board adopt and disclose challenging performance metrics to shareholders, ISS will apply a two-step process in evaluating the proposal:

- First, ISS will generally recommend FOR shareholder proposals advocating the use of performance-based equity awards, unless the proposal is overly restrictive or if the company has demonstrated that it is using a “substantial” portion of performance-based awards for its top executives. ISS does not consider standard stock options with time-based vesting or performance-accelerated awards to be performance-based awards. Premium-priced options should have a premium of at least 25% and higher to be considered performance-based awards.
- Second, ISS will assess the rigor of the company’s performance-based equity program. If ISS believes that the bar set for the performance-based program is too low based on the company’s historical or peer group comparison, ISS will generally support the shareholder proposal. Furthermore, if target performance results in an above target payout, ISS will generally recommend a vote FOR the shareholder proposal due to the program’s poor design. If the company does not disclose the performance metric of the performance-based equity program, ISS will recommend a vote FOR the shareholder proposal regardless of the outcome of the first step of this test.

### *ISS Rationale*

ISS notes that proponents of such proposals are requesting companies to disclose the actual performance metrics they use for equity awards and that more companies are using performance-based awards in their long-term incentive mix. But, ISS finds that shareholders are unable to assess the rigor of such performance-based awards due to limited disclosure.

### *EXEQUITY Comment*

ISS has adopted the mantra of certain institutional shareholder groups that time-vested stock options and performance-accelerated awards are not performance-based awards.

Without firm guidelines as to what will be deemed “rigorous” performance metrics, it will be difficult for firms to consider and act on this policy when making grants of performance-based awards. As a result, we expect ISS will end up supporting most of these types of shareholder proposals.

## Repricing Proposals brought by Management

### *Current Policy*

ISS will recommend on a CASE-BY-CASE basis on management proposals seeking approval to reprice options, giving consideration to:

- Historic trading patterns – the stock should not be so volatile that the options are likely to be back “in-the-money” over the near term;
- Rationale for the repricing – was the stock price decline beyond management’s control?
- Is this a value-for-value exchange?
- Are surrendered stock options added back to the plan reserve?
- Option vesting – does the new option vest immediately or is there a black-out period?
- Term of the option – the term should remain the same as that of the replaced option;
- Exercise price – should be set at fair market or a premium to market;

### Repricing Proposals brought by Management

- Participants – executive officers and directors should be excluded.

#### *New Policy*

In addition to the current considerations, ISS will evaluate the intent, rationale, and timing of the repricing proposal. The proposal should clearly articulate why the board is choosing to conduct an exchange program at this point in time. Repricing after a recent decline in stock price would trigger additional scrutiny and ISS may recommend AGAINST the proposal. At a minimum, the decline should not have happened within the past year. Grant dates of surrendered options should be far enough back (2 to 3 years) so as not to suggest the repricing is being done to take advantage of short-term downward price movements. Similarly, the exercise price of the surrendered options should be above the 52-week high for the stock price.

#### *ISS Rationale*

Recently, ISS has witnessed some companies rush into an option exchange program the moment they announce disappointing earnings and their stock price drops precipitously. ISS believes repricing programs should be “instituted thoughtfully, and not as an immediate, knee-jerk reaction to a decline in stock price.”

#### *EXEQUITY Comment*

We agree with the change to this policy. Companies should be cautious in undertaking option repricing programs and only undertake such programs where there is a pronounced and sustained decline in the company’s stock price, otherwise they risk losing shareholder trust and faith in their equity compensation decisions. But, if a company’s stock price has declined precipitously and has remained depressed for a sustained period of time, it may make sense to explore whether an option repricing program is an appropriate response.

### Other Changes Impacting ISSue Compass Valuations

#### *Additional Changes*

In addition to the policy updates covered in the 2007 Voting Policy Updates, ISS Corporate Services, Inc. (ISSCS) on December 19, 2006 announced several additional changes to the ISSue Compass model that impact valuations under the model.

First, ISSCS announced that plans that allow for “**transferable stock options**” (along the lines of the Microsoft and Google employee option sale programs) will no longer be assessed a higher valuation under the model. However, ISS may note the existence of transferable stock options in its qualitative analysis of a plan.

Second, for plans that permit **dividends or dividend equivalents** on awards, no higher valuation will be applied if such dividends or dividend equivalents are only paid on FVAs. If dividends or dividend equivalents are payable on stock options and/or SARs, a higher valuation will be assessed for such awards under the model.

#### *EXEQUITY Comment*

Both of these changes to the ISSue Compass model will generally lower the valuations generated for plan proposals. Both of these changes make the model’s methodology more consistent with FAS 123R.

## List of Abbreviations

**AC** – allowable cap; a company-specific figure determined by ISS using its annually–updated regression formulas based on industry group, market capitalization and relevant performance metrics determined by ISS

**FAS 123R** – FASB Statement No. 123 (revised 2004), *Share-Based Payment*

**FASB** – Financial Accounting Standards Board

**FVA** – full value award; an award other than a stock option or stock appreciation right that entitles the holder to the full value of a share of stock upon grant or vesting, *e.g.*, a share of restricted stock or a performance share

**ISS** – Institutional Shareholder Services, Inc., <http://www.issproxy.com/index.jsp>

**ISSCS** – ISS Corporate Services, Inc., <http://www.isscorporateservices.com>

**ISSue Compass model** – ISS’ proprietary binomial option pricing model used to assess the SVT and VPD of equity compensation plan proposals

**SVT** – Shareholder Value Transfer; a measure of the economic value of outstanding equity awards and shares available for grant under existing and proposed equity compensation plans determined using ISS’ proprietary valuation model, expressed as a percentage of a company’s market capitalization

**VPD** – Voting Power Dilution; a measure of the amount of equity compensation plan awards and shares, both those shares subject to outstanding, unvested or unexercised equity awards as well as shares available under existing and proposed plans, expressed as a percent of common shares outstanding *plus* shares available under existing and proposed plans and shares subject to outstanding, unvested or unexercised equity awards

*For more information about the ISSue Compass model or ISS policies, visit <http://www.issproxy.com/index.jsp> or contact one of our professionals listed below.*



**Our Executive Compensation Services** – EXEQUITY provides independent executive compensation assistance to Compensation Committees and management. Our executive compensation services include:

- Strategic pay program design and implementation.
- Assessment of competitive levels of pay.
- Help with technical implications of executive pay, such as: proxy disclosure, tax issues, accounting implications, and securities laws.
- Development of retention incentive programs to help retain critical executive talent.
- Design of appropriate severance coverage (change-in-control and general severance).
- Help with understanding likely shareholder reactions to executive pay (including ISS modeling of proposed plans).

**ProxEASE™ Parachute Modeler** – The new proxy disclosure rules mandate comprehensive disclosure of the payments that would have to be made to each Named Executive Officer upon a termination of employment.

Preparing these disclosures will require application of some of the most complex calculations contained in the Tax Code, the “golden parachute” rules.

The ProxEASE™ Parachute Modeler is the only internet-based modeler that automates the golden parachute calculation process. Through the use of an interactive questionnaire, the model will assist you in gathering the data necessary to prepare parachute calculations and will run the calculations easily, efficiently, and accurately. In addition, *EXEQUITY*'s experts are available to help you satisfy the proxy disclosure requirements.

Please contact one of our principals to learn more about the ProxEASE™ Parachute Modeler, including how to subscribe or become an authorized reseller.



If you have any questions about this *Client Briefing*, please contact **Ed Hauder** in our Illinois office or any of the following principals:

Mike Sorensen	(847) 996-3996	<a href="mailto:Mike.Sorensen@exqty.com">Mike.Sorensen@exqty.com</a>
Perry Papantonis	(908) 849-4858	<a href="mailto:Perry.Papantonis@exqty.com">Perry.Papantonis@exqty.com</a>
Ross Zimmerman	(847) 996-3999	<a href="mailto:Ross.Zimmerman@exqty.com">Ross.Zimmerman@exqty.com</a>
<b>Ed Hauder</b>	<b>(847) 996-3990</b>	<a href="mailto:Edward.Hauder@exqty.com">Edward.Hauder@exqty.com</a>
Lynn Joy	(847) 996-3963	<a href="mailto:Lynn.Joy@exqty.com">Lynn.Joy@exqty.com</a>

Illinois Office – 1880 West Winchester Road, Suite 204 • Libertyville, IL 60048  
New Jersey Office – 3 Werner Way, Suite 300 • Lebanon, NJ 08833  
[www.exqty.com](http://www.exqty.com)

You are receiving this *Client Briefing* as a client or friend of *EXEQUITY LLP*. This *Client Briefing* provides general information and not legal advice or opinions on specific facts. If you did not receive this directly from us and you would like to be sure you will receive future *Client Briefings* and our firm's other publications, please click on the following link to add yourself to our subscription list: <http://www.exqty.com/Publications/Subscribe.aspx>. If you want to unsubscribe from our list, please click on “Manage Subscription” at the bottom of the e-mail sent to you.

*Pursuant to Rules 7.2 and 7.4 of the Illinois Rules of Professional Conduct, this publication may constitute advertising material.*

**Exhibit 1 – Trends in Average Shareholder Value Transfer by Industry<sup>2</sup>**

Industry	GICS	Avg SVT %				2003 – 2006 Change
		2003	2004	2005	2006	
Energy	1010	8.31	9.74	7.31	7.96	-0.35
Materials	1510	9.47	7.99	9.00	8.38	-1.09
Capital Goods	2010	11.19	12.07	11.46	11.44	0.25
Commercial Services & Supplies	2020	16.88	12.88	12.95	11.79	-5.09
Transportation	2030	11.74	9.25	8.44	NA	NA
Automobiles & Components	2510	8.56	9.68	8.70	9.66	1.10
Consumer Durables & Apparel	2520	12.56	12.88	10.27	12.38	-0.17
Consumer Services	2530	12.36	10.73	11.05	10.18	-2.18
Media	2540	12.63	9.63	9.90	8.49	-4.14
Retailing	2550	13.48	12.76	11.17	9.84	-3.64
Food & Staples Retailing, Food Beverage & Tobacco, Household & Personal Products	30XX	9.50	11.01	7.95	10.91	1.41
Health Care Equipment & Services	3510	15.82	16.26	13.19	12.75	-3.07
Pharmaceuticals & Biotechnology	3520	17.15	16.16	14.59	14.41	-2.73
Banks	4010	8.31	7.67	9.11	10.12	1.81
Diversified Financials	4020	21.06	12.73	10.75	12.30	-8.76
Insurance	4030	7.27	7.40	7.51	8.52	1.25
Real Estate	4040	5.07	5.09	5.18	4.56	-0.51
Software & Services	4510	22.48	22.49	17.09	16.79	-5.69
Technology Hardware & Equipment	4520	19.18	15.95	13.58	13.12	-6.06
Semiconductors & Semiconductor Equipment	4530	18.43	15.13	14.44	14.01	-4.42
Telecommunication Services	5010	10.37	11.17	7.97	12.91	2.54
Utilities	5510	4.19	6.61	4.11	4.91	0.73

**Trends in SVT Cost of Firms in S&P 500 Index<sup>3</sup>**

Percentile	SVT Cost (%) at Each Specific Percentile				
	2002	2003	2004	2005	2006 YTD
90 <sup>th</sup>	15.98	12.04	11.84	12.02	10.38
80 <sup>th</sup>	12.29	10.48	10.29	10.25	9.16
70 <sup>th</sup>	9.99	8.54	9.05	9.14	8.63
60 <sup>th</sup>	8.81	7.53	7.53	8.08	7.81
<b>50<sup>th</sup></b>	<b>7.22</b>	<b>6.58</b>	<b>6.83</b>	<b>7.09</b>	<b>7.16</b>
40 <sup>th</sup>	6.49	6.00	5.88	6.17	6.48
30 <sup>th</sup>	5.76	5.22	5.23	5.30	5.45
20 <sup>th</sup>	5.20	4.56	4.61	4.36	4.80
10 <sup>th</sup>	3.98	3.36	3.75	3.64	3.72

<sup>2</sup> Source: *Solution Update: Enhancements to Compensation Model for 2007 Season*, ISS Corporate Services, Inc., December 19, 2006, p. 9.

<sup>3</sup> Source: *Solution Update: Enhancements to Compensation Model for 2007 Season*, ISS Corporate Services, Inc., December 19, 2006, p. 8.

Exhibit 2 – ISS 2007 Burn Rate Table<sup>4</sup>

GICS	Description	Russell 3000 Companies			Non-Russell 3000 Companies		
		Mean	Standard Deviation (STDEV)	Mean + STDEV	Mean	STDEV	Mean + STDEV
1010	Energy	1.37%	0.92%	2.29%	1.76%	2.01%	3.77%
1510	Materials	1.23%	0.62%	1.85% <sup>†</sup>	2.21%	2.15%	4.36%
2010	Capital Goods	1.60%	0.98%	2.57%	2.34%	1.98%	4.32%
2020	Commercial Services & Supplies	2.39%	1.42%	3.81%	2.25%	1.93%	4.18%
2030	Transportation	1.30%	1.01%	2.31%	1.92%	1.95%	3.86%
2510	Automobiles & Components	1.93%	0.98%	2.90%	2.37%	2.32%	4.69%
2520	Consumer Durables & Apparel	1.97%	1.12%	3.09%	2.02%	1.68%	3.70%
2530	Hotels Restaurants & Leisure	2.22%	1.19%	3.41%	2.29%	1.88%	4.17%
2540	Media	1.78%	0.92%	2.70%	3.26%	2.36%	5.62%
2550	Retailing	1.95%	1.10%	3.05%	2.92%	2.21%	5.14%
3010, 3020, 3030	Food & Staples Retailing	1.66%	1.25%	2.91%	1.90%	2.00%	3.90%
3510	Health Care Equipment & Services	2.87%	1.32%	4.19%	3.51%	2.31%	5.81%
3520	Pharmaceuticals & Biotechnology	3.12%	1.38%	4.50%	3.96%	2.89%	6.85%
4010	Banks	1.31%	0.89%	2.20%	1.15%	1.10%	2.25%
4020	Diversified Financials	2.13%	1.64%	3.76%	4.84%	5.03%	9.87%
4030	Insurance	1.34%	0.88%	2.22%	1.60%	1.96%	3.56%
4040	Real Estate	1.21%	1.02%	2.23%	1.21%	1.02%	2.23%
4510	Software & Services	3.77%	2.05%	5.82%	5.33%	3.13%	8.46%
4520	Technology Hardware & Equipment	3.05%	1.65%	4.70%	3.58%	2.34%	5.92%
4530	Semiconductors & Semiconductor Equipment	3.76%	1.64%	5.40%	4.48%	2.46%	6.94%
5010	Telecommunication Services	1.71%	0.99%	2.70%	2.98%	2.94%	5.92%
5510	Utilities	0.84%	0.51%	1.35% <sup>†</sup>	0.84%	0.51%	1.35% <sup>‡</sup>

<sup>†</sup> Russell 3000 companies in the 1510 and 5510 GICS code groups must have a three-year burn rate that exceeds 2.00% of common shares outstanding in order to violate ISS' Burn Rate Policy.

<sup>‡</sup> Non-Russell 3000 companies in the 5510 GICS code group must have a three-year burn rate that exceeds 2.00% of common shares outstanding in order to violate ISS' Burn Rate Policy.

<sup>4</sup> Source: ISS US Corporate Governance Policy 2007 Updates, Institutional Shareholder Services, 2006, p. 16.