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ISS 2007 POLICY UPDATES

On November 17, Institutional Shareholder Services ("ISS") released 2007 updates to its U.S., Canadian and international corporate governance voting policies, which include executive compensation voting policies. These policy updates resulted from a new process that included a public comment period. The updated policies are effective for annual shareholder meetings on or after February 1, 2007. This letter covers policy updates applicable to U.S. companies.*

Performance Test for Directors

In 2006, ISS introduced a new performance test under which the worst performing companies in the Russell 3000 index were identified using a weighted average of 1-, 3- and 5-year total shareholder return ("TSR"). The companies were then evaluated on a case-by-case basis against specified criteria to determine whether to recommend withholding votes for directors.

For 2007, ISS has formalized this policy and revised and expanded the performance test for identifying the worst performing companies. The new performance test will be applied within each of the 24 four-digit GICS industry groups as follows:

- 50% weight on operating performance, consisting of three equally weighted measures
  - 5-year average pre-tax operating return on invested capital
  - 5-year sales growth
  - 5-year EBITDA growth
- 50% weight on 5-year TSR

All four measures will be time-weighted with 40% based on trailing 12-month performance and 60% on the 48-month period prior to the trailing 12 months. In the first year, the bottom 5% of performers in each of the 24 industry groups will receive a caution in their ISS proxy analyses, except that companies who were flagged in 2006 or received withhold recommendations will receive withhold vote recommendations. In the second year, if companies are still in the bottom 5% and/or show no performance improvement for the most recent trailing 12 months, ISS may recommend withholding votes for director nominees. This policy will be applied on a rolling basis.

* There were two Canadian compensation policy updates pertaining to amendment procedures for equity-based compensation plans for TSX issuers and employee share purchase plans. There were also two international compensation policy updates for matching share plans (Sweden, Norway) and director stock options (Japan).

SVT Binomial Model

ISS made several changes to its plan cost model for analyzing an equity plan proposal's shareholder value transfer ("SVT"), generally to conform to FAS 123(R) accounting treatment and more common analytical approaches. The changes are:

- Eliminate discount (generally from 10% to 20%) on full-value awards for performance or service conditions
- Eliminate forfeitability discount on option awards
- Eliminate convertible securities from market capitalization
- Round SVT, voting power dilution and allowable caps to nearest whole percentage point (currently rounded to nearest hundredth decimal place)

ISS has subsequently clarified that these model changes will take effect on December 8 when the new model becomes available and will apply to fiscal-year companies with annual meetings in February 2007, even though the model data inputs remain as of September 1 and are not refreshed for new model data inputs as of December 1. For companies with annual meetings from March 1 to May 31, the new model and the refreshed data inputs as of December 1 will apply.

Burn Rate Table

ISS' burn rate policy was introduced in 2005. Under the policy, full-value equity awards are converted to option equivalents based on stock price volatility as follows:

Characteristic	Annual Stock Price Volatility	Conversion Premium
High annual volatility	53% and higher	1 for 1.5
Moderate annual volatility	25% to 52%	1 for 2.0
Low annual volatility	Less than 25%	1 for 4.0

If a company's three-year average burn rate exceeds its industry group's mean by more than one standard deviation and is more than 2% of common shares outstanding, ISS will recommend against the company's equity plan proposal even if plan cost is below the allowable cap. If the company commits in a public filing to a future three-year burn rate no greater than the higher of 2% or the industry group's mean plus one standard deviation at the time of the commitment, ISS will recommend for the equity plan proposal.

No changes were made to the policy other than to update the burn rates for the 24 GICS industry groups. Below we show separate updated tables for Russell 3000 and non-Russell 3000 companies together with the burn rates from the 2005 and 2006 tables, which indicate that burn rates are generally declining, sometimes dramatically.*

* ISS has separately clarified that the non-Russell 3000 burn rates will apply to Bermuda companies beginning in 2007.

2007 Burn Rates-Russell 3000

GICS	Description	Mean	Standard Deviation	Mean & Std. Dev.	Mean & Std. Dev. 2006	Mean & Std. Dev. 2005
1010	Energy	1.37%	0.92%	2.29%	2.50%	2.61%
1510	Materials	1.23%	0.62%	1.85%	2.11%	2.36%
2010	Capital Goods	1.60%	0.98%	2.57%	2.93%	3.05%
2020	Commercial Services & Supplies	2.39%	1.42%	3.81%	4.33%	4.40%
2030	Transportation	1.30%	1.01%	2.31%	3.47%	3.60%
2510	Automobiles & Components	1.93%	0.98%	2.90%	3.24%	3.48%
2520	Consumer Durables & Apparel	1.97%	1.12%	3.09%	3.26%	3.90%
2530	Hotels Restaurants & Leisure	2.22%	1.19%	3.41%	3.31%	3.48%
2540	Media	1.78%	0.92%	2.70%	3.38%	3.84%
2550	Retailing	1.95%	1.10%	3.05%	4.12%	4.84%
3010, 3020, 3030	Food & Staples Retailing	1.66%	1.25%	2.91%	3.13%	3.48%
3510	Health Care Equipment & Services	2.87%	1.32%	4.19%	4.91%	5.20%
3520	Pharmaceuticals & Biotechnology	3.12%	1.38%	4.50%	5.57%	5.32%
4010	Banks	1.31%	0.89%	2.20%	2.46%	2.61%
4020	Diversified Financials	2.13%	1.64%	3.76%	5.28%	5.66%
4030	Insurance	1.34%	0.88%	2.22%	2.56%	2.32%
4040	Real Estate	1.21%	1.02%	2.23%	2.31%	1.90%
4510	Software & Services	3.77%	2.05%	5.82%	8.00%	8.49%
4520	Technology Hardware & Equipment	3.05%	1.65%	4.70%	6.11%	6.68%
4530	Semiconductors & Semiconductor Equip.	3.76%	1.64%	5.40%	7.67%	7.97%
5010	Telecommunication Services	1.71%	0.99%	2.70%	3.92%	4.95%
5510	Utilities	0.84%	0.51%	1.35%	1.56%	1.55%

2007 Burn Rates-Non-Russell 3000

GICS	Description	Mean	Standard Deviation	Mean & Std. Dev.	Mean & Std. Dev. 2006	Mean & Std. Dev. 2005
1010	Energy	1.76%	2.01%	3.77%	4.56%	4.78%
1510	Materials	2.21%	2.15%	4.36%	4.16%	4.46%
2010	Capital Goods	2.34%	1.98%	4.32%	5.37%	6.17%
2020	Commercial Services & Supplies	2.25%	1.93%	4.18%	7.61%	8.07%
2030	Transportation	1.92%	1.95%	3.86%	4.30%	4.66%
2510	Automobiles & Components	2.37%	2.32%	4.69%	4.51%	5.18%
2520	Consumer Durables & Apparel	2.02%	1.68%	3.70%	5.35%	6.21%
2530	Hotels Restaurants & Leisure	2.29%	1.88%	4.17%	5.17%	6.17%
2540	Media	3.26%	2.36%	5.62%	5.77%	7.01%
2550	Retailing	2.92%	2.21%	5.14%	8.03%	7.75%
3010, 3020, 3030	Food & Staples Retailing	1.90%	2.00%	3.90%	4.99%	6.68%
3510	Health Care Equipment & Services	3.51%	2.31%	5.81%	7.53%	7.79%
3520	Pharmaceuticals & Biotechnology	3.96%	2.89%	6.85%	10.15%	9.92%
4010	Banks	1.15%	1.10%	2.25%	2.79%	3.25%
4020	Diversified Financials	4.84%	5.03%	9.87%	8.47%	8.55%
4030	Insurance	1.60%	1.96%	3.56%	5.10%	4.24%
4040	Real Estate	1.21%	1.02%	2.23%	2.79%	3.01%
4510	Software & Services	5.33%	3.13%	8.46%	12.97%	14.10%
4520	Technology Hardware & Equipment	3.58%	2.34%	5.92%	8.75%	10.12%
4530	Semiconductors & Semiconductor Equip.	4.48%	2.46%	6.94%	8.07%	10.74%
5010	Telecommunication Services	2.98%	2.94%	5.92%	7.11%	8.56%
5510	Utilities	0.84%	0.51%	1.35%	6.24%	8.38%

Poor Pay Practices

ISS implemented a new policy in 2006 to recommend withholding votes from compensation committee members of companies with poor compensation practices.

For 2007, ISS has updated its policy to (1) identify best pay practices, (2) provide examples of poor compensation practices, and (3) extend the withhold recommendations beyond the compensation committee to the CEO and/or the whole board if they were involved in and contributed to egregious compensation problems. Company practices will continue to be evaluated on a case-by-case basis. ISS' best practices are:

- Employment contracts – should be entered into under limited circumstances (e.g., new hire) and for short time period (e.g., three years). There should be a specified termination date and no automatic renewal features

- Severance agreements – severance provisions should not become incentives for executives to be terminated and should exclude excise tax gross-ups. Severance formulas should be reasonable and not overgenerous (e.g., severance multiples of 1X, 2X or 3X and use of pro rated target/average historical bonus instead of maximum bonus). Failure to renew an employment contract or termination under questionable circumstances or for poor performance should not be reasons for severance payments

- Change-in-control ("CIC") payments – CIC payments should only be made for a significant change in ownership structure and should be double-trigger (i.e., loss of employment or substantial change in job duties). CIC provisions should exclude excise tax gross-ups and single-trigger accelerated vesting of equity awards

- SERPs – sweeteners that can increase SERP value exponentially (e.g., additional years of service and inclusion of variable pay, such as bonuses and equity awards) should be eliminated. Pension formulas should not include extraordinary annual bonuses paid close to retirement or the maximum level of compensation earned

- Deferred compensation – above-market returns or guaranteed minimum returns should not be used

ISS also updated and expanded its list of poor compensation practices as listed below with the new information shown in italics:

- Egregious employment contracts *(e.g., those containing multi-year guarantees for bonuses and grants)*

- Excessive perks that dominate compensation *(e.g., tax gross-ups for personal use of corporate aircraft)*

- Huge bonus payouts without justifiable performance linkage *or proper disclosure*

- Performance metrics that are changed *(e.g., cancelled or replaced during the performance period without adequate explanation of the action and the link to performance)*

- Egregious *pension/*SERP payouts *(e.g., the inclusion of additional years of service not worked or performance-based equity awards)*

- New CEO awarded an overly generous new hire package *(e.g., including excessive "make whole" provisions or any of the poor pay practices listed in this policy)*

- Excessive severance provisions *(e.g., including excessive CIC payments)*

- *CIC payouts without loss of job or substantial diminution of job duties*

- Internal pay disparity

- *Options backdating (see separate policy below)*

- Other excessive compensation payouts or poor pay practices

<u>Options Backdating</u>

If a company has engaged in options backdating, ISS may, on a case-by-case basis, recommend withholding votes from compensation committee members. ISS' vote recommendation will consider the severity of the practices, including the following:

- Reason and motive for the options backdating issue (e.g., inadvertent vs. deliberate)

- Length of time of options backdating

- Size of restatement due to options backdating

- Corrective actions taken by the board or compensation committee (e.g., canceling or repricing backdated options, recoupment of gains on backdated options)

- Adoption of a grant policy that prohibits backdating and creation of a fixed grant schedule or window period for future equity grants

<u>Shareholder Performance-Based Equity Proposals</u>

ISS' current policy is to generally support shareholder proposals advocating use of performance-based equity awards (e.g., indexed options, premium-priced options, performance-vesting 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 of performance-based award)

- The company demonstrates that a substantial portion (i.e., at least 50%) of awards to top executives (i.e., the top 5) are performance-based

ISS' updated policy for shareholder proposals requesting that a significant amount of future long-term incentives awarded to senior executives be performance-based and that challenging performance metrics be adopted and disclosed will be to apply a two-step process in evaluating the proposal as follows:

- First, ISS will generally support shareholder proposals advocating use of performance-based equity awards, consistent with the current policy, and has clarified for purposes of applying the policy that standard stock options, performance-accelerated awards and premium-priced options with exercise prices less than 25% above current stock price will not be considered performance-based

- Second, ISS will assess the rigor of the performance-based equity program

  — If ISS considers the performance bar to be set too low based on historic performance or peer group comparisons, it will support the proposal

  — If achievement of target performance results in an above-target payout, ISS will support the proposal

  — If the performance metric and goal level are not disclosed, ISS will support the proposal regardless of the outcome of the first step

<u>Management Option Repricing Proposals</u>

ISS' current policy regarding proposals to reprice stock options involves a case-by-case consideration of the following:

- Historic trading patterns – the stock price should not be so volatile that the options are likely to be back "in-the-money" over the near term

- Rationale for the re-pricing – 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 value or at a premium

- Participants – executive officers and directors should be excluded

Under ISS' new policy, it will now consider the intent, rationale and timing of the repricing proposal in addition to the above items. The proposal should clearly note why the board is choosing to conduct the exchange program. Repricing proposals within a year of the stock's decline will trigger additional scrutiny and a possible against recommendation. Grant dates of surrendered options should be two to three years (or more) prior to the repricing, and the exercise prices of the surrendered options should be above the 52-week high for the stock price.

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This letter is intended to alert compensation professionals about developments that may affect their companies. General questions about ISS' policy guidelines maybe addressed to Wendy Hilburn or David Cole at 212-986-6330. This letter and other published materials are available on our website, www.fwcook.com.