

SOLUTIONS OVERVIEW

Options Expensing Alert

Offering apples-to-apples comparisons of stock option expense

FAS 123R has finally put stock option expense on the income statement. But more disclosure does not mean complete transparency — companies still have considerable leeway in choosing both an option valuation model and the critical assumptions for the model. As a result, earnings quality depends in part on how option value is calculated.

Investors need as never before to evaluate the reliability and accuracy of companies' stock option valuation methods.

ISS' Options Expensing Alert provides investors with consistent information to evaluate the impact of expensing assumptions on the quality of disclosed earnings. ISS employs a methodology, comprising both the "gold standard" Hull-White lattice

pricing model and a uniform assumption-setting process, to calculate an adjusted fair value for companies' option grants.

With this data, investors can identify companies with both aggressive and conservative valuation assumptions, and quantify the impact of these assumptions on earnings. This information allows analysts to make apples-to-apples comparisons of earnings and strip out variation that comes from companies' assumptions. At the same time, our methodology allows an analyst to incorporate the actual financial impact of the option grants, unlike methods that simply back out option expense.

With ISS' Option Expensing Alert, you will receive:

CLIENT BENEFITS

ISS' Options Expensing Alert gives institutional investors:

- A relevant and timely flow of options expense data.
- Consistently calculated option values according to ISS' model and normalized assumptions.
- The ability to identify variances of fair value vs. reported value for options.
- A transparent and preferred valuation model, with key assumptions built upon the Risk Metrics Group's open-source risk methodology.
- Coverage includes the S&P 500 as disclosures are made under FAS 123R.

Company Name	ISS Industry	Fiscal Year End	Options Granted (millions)	Expense (millions)	Expected Volatility	Historical Volatility	Expected Term (years)	Expected Rate	Expected Dividend Yield	Contextual Term (years)	Reported Value	ISS Option Value	Difference in Value (millions)	Adjustment to Reported Value (millions)
ADCT	ADCT THERAPEUTICS/GENETICS INC	3/31/06	1,000	\$23.43	57.70%	59.70%	0.00%	4.34%	4.50	10	\$19.27	\$14.53	-17.85%	\$1.13
AIG	ADVENT TECHNOLOGIES INC	3/31/06	8,474	\$34.00	29.00%	38.70%	0.00%	4.40%	4.25	10	\$10.46	\$17.07	62.21%	\$3.22
AMT	AMF PRODUCTS & CHEMICALS INC	2/28/06	1,368	\$33.38	30.00%	22.00%	2.10%	4.00%	8.00	10	\$18.00	\$17.76	-0.34%	\$1.1
AMC	AMERGEN/ROCHE/GENENTEC CORP	Health Care	2,506	\$50.00	23.73%	28.51%	0.20%	4.00%	4.17	10	\$19.56	\$16.51	-17.00%	\$1.09
AMU	AMULCO/DEVEX	3/31/06	8,132	\$38.63	28.70%	36.17%	1.30%	4.00%	5.00	10	\$11.80	\$17.04	46.92%	\$2.74
AMPX	AMP/NEC	2/28/06	3,881	\$62.33	40.24%	39.14%	0.00%	4.00%	3.50	10	\$11.71	\$33.02	182.00%	\$22.02
AMN	AMPHENOL MATERIALS INC	3/31/06	12,174	\$16.92	36.70%	36.17%	0.70%	4.48%	3.80	7	\$5.47	\$7.08	29.51%	\$1.13
AMN	AMPLANE INC	3/31/06	0,023	\$65.48	28.50%	25.70%	1.70%	4.00%	5.00	10	\$17.24	\$22.80	32.23%	\$0.1
AMN	AMSCOR INC	3/31/06	0,750	\$87.75	30.00%	28.60%	0.00%	4.10%	3.00	10	\$22.86	\$34.44	50.64%	\$1.4
AMR	AMERICA INC	2/28/06	6,503	\$10.81	58.10%	57.32%	0.00%	4.50%	3.50	7	\$4.57	\$6.20	37.34%	\$0.4
AMR	AMERSON ELECTRIC CO	3/31/06	1,708	\$10.31	36.80%	34.27%	0.00%	4.40%	2.81	7	\$11.70	\$14.43	24.67%	\$1.0
AMR	CAMPBELL SOUP CO	3/31/06	2,212	\$29.82	23.00%	19.12%	2.40%	4.00%	6.00	10	\$6.65	\$8.17	18.51%	\$0.2
AMR	CEA/COOP	3/31/06	0,379	\$21.95	61.50%	63.07%	0.00%	4.70%	5.80	10	\$13.22	\$13.88	5.74%	\$0.3
AMR	CEGOS/STYRENE/AC	3/31/06	233,000	\$18.21	23.70%	33.60%	0.00%	4.00%	4.00	9	\$6.10	\$8.07	32.24%	\$0.4
AMR	CEP/STO/INGRAM/SAFE CORP	3/31/06	0,794	\$46.45	28.00%	26.44%	0.90%	4.30%	5.20	10	\$13.87	\$18.00	29.10%	\$1.9
AMR	CH/ROFFER INC	3/31/06	3,005	\$28.44	44.00%	39.10%	1.00%	4.80%	7.74	10	\$14.83	\$13.76	-7.19%	\$1.0
AMR	CHRYSLER/GO	3/31/06	2,400	\$68.80	24.40%	29.70%	1.80%	4.10%	7.00	10	\$20.00	\$32.89	64.50%	\$1.2
AMR	CHRYSLER/QUALITY CO	2/28/06	24,800	\$13.33	38.00%	26.00%	0.70%	4.30%	3.00	7	\$7.00	\$8.87	25.71%	\$1.2
AMR	CHRYSLER/ELECTRIC CO	2/28/06	0,585	\$75.38	23.00%	23.84%	2.40%	4.40%	6.00	10	\$17.09	\$17.00	-0.52%	\$1.0
AMR	CHRYSLER/FRANCIS CO	3/31/06	52,071	\$11.00	29.00%	32.00%	1.00%	4.30%	4.75	8	\$8.38	\$12.33	33.81%	\$0.4
AMR	CHRYSLER/INTL BANK TECHNOLOGY	2/28/06	1,395	\$30.37	29.00%	28.00%	1.50%	4.40%	4.40	10	\$7.65	\$11.47	49.31%	\$1.1
AMR	CHRYSLER/INTL BANK	3/31/06	18,815	\$38.57	25.00%	33.57%	0.00%	4.40%	2.70	7	\$6.87	\$10.28	49.02%	\$0.4
AMR	CHRYSLER/CONTROLS INC	2/28/06	2,880	\$67.76	22.00%	23.60%	1.70%	4.40%	4.75	10	\$16.33	\$22.83	40.40%	\$1.2
AMR	CHRYSLER/INFORMATION INC	3/31/06	10,800	\$17.77	45.00%	45.11%	0.00%	4.50%	4.25	6	\$6.50	\$6.67	2.62%	\$0.7
AMR	CHRYSLER/GO	3/31/06	2,992	\$29.60	30.50%	28.10%	1.00%	4.40%	5.00	10	\$9.90	\$11.85	20.21%	\$1.0
AMR	CHRYSLER/PALL CORP	3/31/06	0,444	\$27.50	26.70%	25.41%	1.90%	4.00%	5.00	7	\$7.20	\$8.21	14.07%	\$0.3
AMR	CHRYSLER/QUALCOMM INC	2/28/06	28,527	\$40.44	30.70%	23.74%	1.00%	4.00%	2.80	10	\$11.73	\$16.83	44.28%	\$0.6
AMR	CHRYSLER/ROCKWELL AUTOMATION	3/31/06	1,567	\$56.88	32.00%	20.70%	1.50%	4.30%	5.30	10	\$17.67	\$10.21	-42.20%	\$1.8
AMR	CHRYSLER/ROCKWELL COLLING INC	2/28/06	0,330	\$45.22	30.00%	24.53%	1.00%	4.00%	4.00	10	\$13.46	\$16.77	24.53%	\$1.1
AMR	CHRYSLER/SABIC/GO CORP	2/28/06	2,418	\$41.10	37.00%	62.37%	0.00%	4.60%	3.40	7	\$6.67	\$2.44	-2.28%	\$0.2
AMR	CHRYSLER/SOLETRON CORP	3/31/06	3,301	\$3.68	53.50%	56.50%	0.00%	4.60%	4.50	10	\$1.89	\$2.23	17.73%	\$0.7
AMR	CHRYSLER/STANBEC CORP	2/28/06	13,337	\$30.32	29.00%	27.60%	0.00%	4.00%	4.40	10	\$9.10	\$10.41	14.39%	\$0.4
AMR	CHRYSLER/TECH INFORMATIONAL LTD	2/28/06	10,362	\$20.89	34.00%	29.80%	1.30%	4.20%	4.20	10	\$8.90	\$11.45	27.01%	\$1.3
AMR	CHRYSLER/TECHNICAL SERVICES INC	2/28/06	3,896	\$16.33	37.00%	30.14%	1.20%	4.70%	3.90	10	\$6.80	\$9.09	33.84%	\$1.0
AMR	CHRYSLER/TECHNICAL SERVICES INC - CL A	3/31/06	3,144	\$46.88	32.17%	23.10%	0.90%	4.10%	7.20	10	\$14.82	\$17.94	20.48%	\$1.0
AMR	CHRYSLER/WHOLE FOODS MARKET INC	2/28/06	1,444	\$89.00	29.40%	29.80%	1.20%	5.04%	3.22	5	\$10.04	\$11.21	11.41%	\$1.5

- Consistent, up-to-date data on stock option expensing under FAS 123R, including key grant information (size, data, strike price) as well as the key assumptions under the company's valuation model.

- Recalibrated per-option values calculated using ISS' lattice model under consistent volatility, dividend yield and risk-free rate assumptions.
- Net dollar and cents-per-share earnings variance between reported and ISS-recalibrated option value.
- Delivered weekly with commentary and analysis via e-mail, to be integrated into your own quantitative and qualitative research.

Model Data Elements

- Company name, ticker symbol, GICS industry group, earnings per share including extraordinary items and discontinued operations (EPSi), and earning per share excluding extraordinary items and discontinued operations (EPSx) for the applicable fiscal year.
- The number, exercise price, contractual term, and reported “fair value” of options granted during the applicable fiscal year.
- The option valuation technique (Black-Scholes, Binomial, or Monte Carlo) and the fair value assumptions utilized in expensing option grants for the applicable fiscal year, including:
 1. expected option term,
 2. expected stock price volatility,
 3. expected dividend yield,
 4. expected risk-free interest rate.
- “Recalibrated” option fair values estimated under a unified and FASB-compliant valuation standard, and the percentage discrepancy between reported and recalibrated option fair values.

- GAAP-compliant adjustments to net income and earnings per share to account for the difference between reported and “recalibrated” option fair values.
- The percentage discrepancy between reported and adjusted earnings per share (EPSi and EPSx).

For more information on ISS’ Options Expensing Alert, please call 1-866-ISS-PROXY email issmarketing@issproxy.com or visit www.issproxy.com.

ISS’ Options Expensing Alert is intended to provide a consistent methodology for reviewing the assumptions that the companies in the coverage universe have used in implementing options expensing and, using a SFAS 123R/ SAB 107 compliant valuation methodology, potential valuation implications associated with a company’s options expensing methods. The Alert does not, and is not intended to, provide an opinion as to the merits of any covered company’s options expensing methods. In no way should the contents herein be interpreted as an indication of ISS’ likely vote recommendation on any particular situation.

ISS’ Option Expensing Alert is a powerful tool for evaluating the quality of companies’ option valuation practices.

ISS AT A GLANCE

- 580+ employees
- 12 offices worldwide
- 1,700+ institutional clients

BUSINESS METRICS

Current Clients	1,700+
New Clients in 2006	227
Renewal Rate	94%
Employees	580
Global Office Locations	12
Years in Business	22
Clients’ Equity Assets	\$25.5 Trillion

RESEARCH METRICS

Companies Covered	35,196
Countries Covered	115
Policy Choices	9
Custom Policies Managed	300+
Research Analysts	170+
Average Research Delivery	22 Days
	Prior to Meeting Date
Error Rate	0.023%

VOTING METRICS

Ballots Voted in 2006	7.6 Million
Shares Represented	846 Billion
Global Custodian Relationships	34
Sub-custodian Relationships	430

DATABASE ANALYTICS

Corporate Governance Ratings	8,000 Companies
Securities Litigation	17 Years of History
Vote Results	7 Years of History
Shareholder Proponent Data	4 Years of History
ESG Screening Issues	80+
ESG Screening Coverage	8,000 Companies

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