



RADFORD ALERT

ISS' 2011 Burn Rate Limits

In follow-up to the November release of its 2011 Policy Updates, Institutional Shareholder Services (ISS) issued its updated burn rate tables on December 17, 2010 (see Figure 1). In contrast to the trend of the past couple of years, ISS has increased burn rate limits across most industry sectors; in some technology and life sciences sectors, the new limits are higher than the 2009 levels.

ISS considers burn rates in determining the risk level attributed to the Compensation section of a company's Governance Risk Indicators (GRId) rating. Additionally, ISS will vote against a company's stock plan proposal if its three-year average burn rate exceeds its industry's average by more than one standard deviation, or two percent of common shares outstanding, whichever is greater (absent an ISS-compliant public burn rate commitment).

Following are ISS' burn rate limits, listed by industry and divided into those companies that are part of the Russell 3000 and those that are not.

Figure 1: ISS Burn Rate Limits (Mean + One Standard Deviation)

Industry	Russell 3000			Non-Russell 3000		
	2011	2010	2009	2011	2010	2009
Media	4.10%	2.28%	3.25%	6.03%	4.03%	6.13%
Health Care Equipment & Services	4.66%	3.65%	4.39%	9.92%	7.92%	6.64%
Pharmaceutical & Biotechnology	7.16%	5.16%	5.76%	10.58%	8.58%	9.46%
Software & Services	7.26%	5.47%	6.76%	9.58%	7.58%	10.12%
Technology Hardware & Equipment	5.84%	4.79%	5.52%	9.08%	7.08%	6.30%
Semiconductor Equipment	6.64%	4.82%	5.72%	7.78%	7.31%	7.79%
Telecommunications Services	4.50%	2.50%	3.74%	7.08%	5.08%	5.92%

The higher limits will likely come as some relief to many companies in the technology and life sciences sectors that have struggled to conform to burn rates that, in the main, trended lower over each of the past several years. These new burn rate limits apply to shareholder meetings held on/after February 1, 2011.

Following are the calculations for converting full value shares to option equivalents, as bucketed by range of 200-day volatility.

Figure 2: ISS Full-Value to Stock Options Multiplier, by Volatility

Stock Price Volatility	Multiplier (1 full-value award equals)
<7.9%	4.0 options
7.9% or higher and less than 16.4%	3.5 options
16.5% or higher and less than 24.8%	3.0 options
24.9% or higher and less than 36.0%	2.5 options
36.1% or higher and less than 54.5%	2.0 options
54.6% and greater	1.5 options

More Information

We encourage you to forward this Alert to your board members. And as always, we encourage you to contact us if you have questions. For more information, contact:

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