



NEWS

For Immediate Release

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FIRST-OF-A-KIND STUDY FINDS SHAREHOLDER VALUE INCREASES UNDER HYBRID BOARDS

***Higher Share Ownership of Dissidents Increases Return;
But Much of the Value Gain Is Attributed to “Contest Effect”***

NEW YORK, NY, May 25, 2009 – The Investor Responsibility Research Center Institute and PROXY Governance Inc. today released the first-ever comprehensive analysis of the impact of insurgent shareowners winning some – but not all – board seats at a company. The report comes on the heels of the Securities and Exchange Commission’s proposed rules to make it possible for a company’s shareholders to elect a limited number of independent directors, and against a backdrop of high profile shareholder activist attempts to garner board seats at companies such as Target Corp, Consec, and Biogen Idec.

The new study, “*Effectiveness of Hybrid Boards*,” analyzes 120 “hybrid boards” formed from 2005 through 2008 to evaluate their effectiveness in two areas: changes in business strategy and corporate governance structures; and changes in shareholder value measured both absolutely and relative to peers. Hybrid boards are those formed when activist shareholders – such as hedge funds – elect dissident directors but do not win full control of a board via actual or threatened proxy contests.

The key research findings are as follows:

- Shareholder value on average at ongoing companies improved under hybrid boards by 19.1% – 16.6 percentage points more than peers – from the contest period through the board’s one year anniversary. More than half of that gain came during the three-month contest period: average share prices increased by 5.0% over the ensuing year, which is 3.6 percentage points better than peers.

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- Strong positive share price performance over the 15 months from the contest period through the hybrid board's first anniversary was increasingly likely when the dissidents owned a significant percentage of shares. When dissidents owned between 10% and 25% of shares, performance significantly outperformed peers by an average of 67.7 percentage points. In comparison, dissidents that held less than 5% of shares performed in line with peers, and dissidents that held 5% to 10% of shares moderately outperformed peers.
- Among the ongoing businesses evaluated following the creation of hybrid boards, total share price performance for the 39 months from the three month contest period through the three year anniversary of the hybrid board, averaged 21.5% – 17.8 percentage points higher than peers – largely on significant contest period price appreciation averaging 10.1%. Over the 36-month period after the contest period, however, share price performance, averaged 0.7% or 6.6 percentage points worse than peers.
- Shareholder activists have gained increased representation on the boards of targeted companies. During the four-year period covered by the study, dissidents were able to gain representation at some 75% of the companies targeted. Dissidents typically gained board seats through settlement agreements rather than an actual proxy contest brought to a shareholder vote.
- Bankruptcy was not an objective of any dissident groups in the study but was the outcome under 5% of hybrid boards in the sample. This resulted in a loss of more than 99.9% of shareholder value at those companies.
- While 35% of hybrid boards were formed by dissidents intending to sell the company, only 15% of this group announced or completed a sale transaction by January 2009.
- Most of the companies examined continued as ongoing businesses, but 18% were sold during the study period. Among those sold, the sale price premium averaged 27.1% versus the undisturbed share price.
- Hybrid board characteristics that were most strongly associated with relative shareholder return outperformance compared to peers included companies in which: dissidents owned between 10% and 25% of the firm equity; new dissident and independent directors comprised between 20% and 30% of the target firm's board; hybrid boards were formed as a result of multiple hedge funds acting as a group to run a proxy contest.

“Over the past four years, the number of hybrid boards created each year as a result of real or threatened proxy contests at U.S. companies increased by 150% -- from 18 in 2005 to 45 in 2008. Until now, however, there was no analysis of the effect of this relatively recent but relatively widespread phenomenon. While these conclusions obviously should not determine how anyone votes in a specific proxy battle, they do give context to those situations,” said Jon Lukomnik, IRRC Institute program director.

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Lukomnik added, “We also wanted to evaluate claims that proxy contests are driven by short-term, value extraction goals such as returning cash to shareholders or forcing a sale of the company. The data

indicates otherwise. In contrast to conventional wisdom, the analysis finds that hybrid boards are more likely – in absolute terms and in comparison to hybrid boards in the past – to oversee an ongoing business rather than a sale of the company, a share buyback, or the issuance of a special dividend. We hope these findings help to build a strong, impartial compilation of research that enables investors to make sound decisions based on accurate data and objective analysis,” he said.

“Hybrid boards represent an increasingly important phenomenon on the corporate governance landscape but are under-studied in the governance literature,” said Scott Fenn, senior managing director for policy at PROXY Governance and a co-author of the report. “Evidence about the degree of effectiveness of these boards is crucial as Congress and regulators consider governance reforms such as proxy access in the nomination of directors, and as institutional investors demonstrate greater willingness to support dissident nominees,” Fenn said.

The study offers six in-depth case studies of proxy contests resulting in hybrid boards. Each case study is unique, but taken together offer insight on the patterns for the causes of the contests and the direction of the company thereafter. The case studies are:

- *The Governance Reformer: H&R Block, Inc.* – Dissidents with strong governance credentials are able to push through major governance and strategic changes at a company.
- *The Quick Wrap-Up: Datascope Corp.* – Dissidents who want to see the company sold negotiate and complete a sale before their board seats are warm.
- *Going Down With the Ship: WCI Communities, Inc.* -- Dissidents win board seats at a troubled company but are unable to reverse the company’s fortunes on the ride down into bankruptcy.
- *Through the Looking Glass: Take-Two Interactive Software, Inc.* – After campaigning to clean up managerial misbehavior and corporate performance, dissidents entrench themselves in board and management positions amid a worsening spiral of misbehavior and performance.
- *Tag-Team Dissidents: Topps Co.* – Multiple dissidents mount successive proxy contests over several years, as one group after another proves unable to subdue a powerful trend of disappointing corporate performance.
- *The Return of the King: Vineyard National Bancorp* – A disgruntled former executive or director, whose departure often was involuntary, mounts a campaign to return to the throne.

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The full report is available at www.iirrinstitute.org and www.proxygovernance.com. The report also is included in the Social Science Research Network Corporate Governance Network at

<http://www.ssrn.com/cgn/index.html>. The CGN is sponsored by the Institute and makes available thousands of research reports on environmental, social and corporate governance research to anyone, anywhere, anytime.

About The IRRIC Institute

The IRRIC Institute is a not-for-profit organization headquartered in New York, N.Y whose mission is to provide thought leadership at the intersection of corporate responsibility and the informational needs of investors. More information is available at www.irricinstitute.org.

About PROXY Governance

PROXY Governance, Inc., (www.proxygovernance.com) is an independent and conflict-free proxy advisory firm that helps build long-term shareholder value by providing various proxy advisory services to institutional investors, including mutual funds, public and private pension funds, insurance companies' investment divisions, and investment banks. PGI's services include high-quality research, independent voting recommendations and a state-of-the-art proxy voting platform, known as PROXY Advantage.

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