RiskMetrics Group
The Center for the Financial Community

Financial Research & Analysis

M&A Edge™

In-depth, objective analysis on high-profile mergers and acquisitions and corporate control contests

The environment for contentious mergers & acquisitions and corporate control contests is more active and more complex than ever before. Along with the challenges associated with assessing the financial merits of these transactions, institutional investors must consider their fiduciary obligation to vote in a manner that protects and creates shareholder value. Investors need in-depth information and objective analysis as issues surrounding M&A deals and proxy contests unfold.

Through the Financial Research and Analytics business unit of RiskMetrics Group, M&A Edge provides institutional investors with a comprehensive and high-quality solution that evaluates the merits of contentious transactions through a combined financial and corporate governance lens. Our dedicated M&A research team offers extensive investment banking and law firm experience to bring clients a unique view into each deal or contest, backed by a global team of corporate governance experts. No other provider delivers this high a level of independent deal analysis, communication and insight.

M&A Edge provides an independent view that focuses specifically on proposed M&A deals and proxy contests. This unique offering complements our traditional proxy research by providing the same foundational analysis and vote recommendation, but delivers ongoing deal notes that keep you abreast of key events as the deal or contest evolves. Coverage continues as issues develop, from the date of announcement through the shareholder vote. An additional "Pipeline" component completes the service by providing a view into high profile deals and corporate control contests on the horizon.

With M&A Edge you'll receive:

+ **M&A Edge Pipeline.** Quick-read biweekly report alerting you to potential M&A deals and corporate control contests on the radar screen.
+ **M&A Edge Notes.** Deal notes, which summarize key issues and events taking place throughout the course of the contest.
+ **M&A Edge Analysis.** In-depth research reports and vote recommendations delivered approximately two weeks before the shareholder meeting.

M&A Edge is a "must-have" unique service for institutional investors looking to stay abreast of high profile mergers and acquisitions and corporate control contests.

RiskMetrics Group Addresses a Broad Spectrum of Risk

Client Benefits:

+ Continuous coverage, from deal announcement through the shareholder meeting
+ Evaluation of a transaction through a combined financial and corporate governance lens
+ Analysis that addresses the key shareholder value issues
+ In-depth coverage of valuation issues as well corporate governance and shareholder rights issues
+ Notes, Analyses and Pipeline Reports provided in an easy-to-read format, fully integrated into online platform, Governance Analytics™

The Current Environment for M&A

Contentious mergers and proxy contests are not only on the rise, but have become increasingly complex. In past years, it was rare for investors to block a merger or acquisition or even contest the merits of a proposed transaction. Today, with executives often structuring deals for their own benefit and some transactions having terms that dilute long term shareholder value, investors are increasingly taking closer looks at transactions and contests before voting their proxies.

Institutional investors need to be able to fully understand the shareholder impact of these transactions, express their concerns and make final vote decisions based on thorough, objective analysis of the corporate governance and financial issues that impact shareholder value.

+ **Many transactions have destroyed shareholder value despite high approval rates.** Anywhere from 30-70% of transactions fail to live up to expectations, yet they tend to be overwhelmingly approved by shareholders.
+ **Questioning the merits of M&A is difficult but crucial to protecting shareholder value.** Questioning a transaction can be interpreted as a 'vote of no confidence', however investment managers need to raise their concerns without fear of alienating company management.
+ **The shareholder vote is often the last or only line of defense against bad deals or mediocre boards.** Shareholders must judiciously exercise their right to vote in order to best serve their fiduciary duty.
+ **Accurate information on each deal is vital to making an informed decision.** Shareholders of the target firm need to protect themselves from issues that may rise between the time a merger contract is signed and the shareholder meeting.

M&A Edge Notes provide a quick-read analysis of potential M&A deals and corporate control contests

RiskMetrics Group

M&A Edge® Note

Issuer: **Guidant Corp. (GDT) / "Deal Jumps"**

On the morning of January 25th, Guidant Corp. (GDT) announced that it had terminated its agreement to be acquired by Johnson & Johnson (JNJ) for approximately $71 per share in cash and stock (valued as of January 13th) and announced that it had agreed to be acquired by Boston Scientific (BSX) for $80 a share in cash and stock. This was just the latest example of successful "deal jumping" by a third-party acquirer. "Deal jumping" is where a challenger submits an unsolicited higher offer after the announcement of an agreed transaction between two friendly parties.

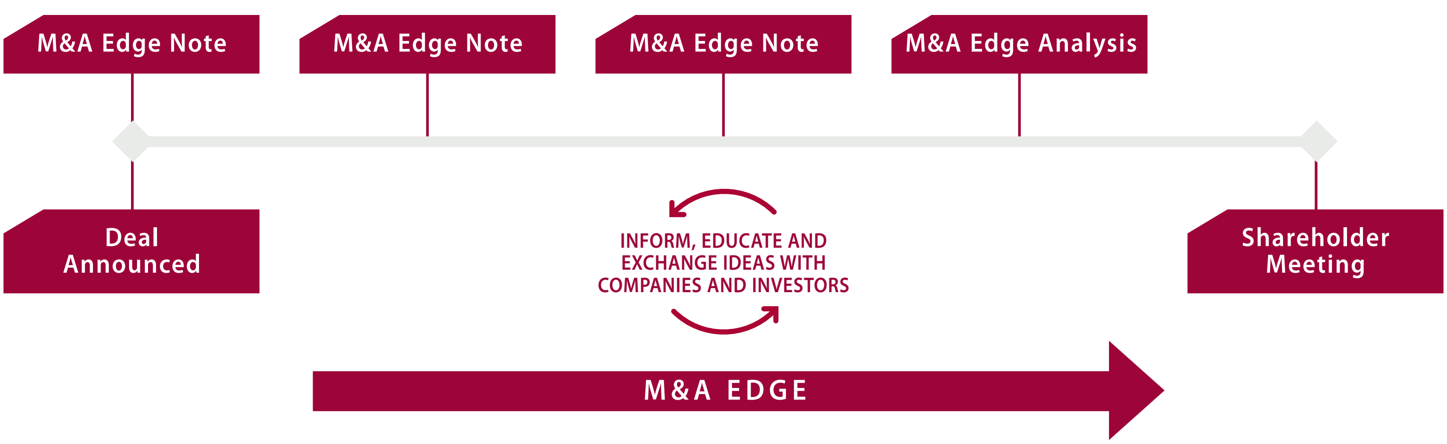
As one can see from the table below, target shareholders benefit significantly when there is competition for their shares, often to the tune of hundreds of millions or even billions of dollars in shareholder value.

Recent "Deal Jumps" Lead to Shareholder Value Creation

Target	Initial Bidder	Deal "Jumper"	Initial Price Per Share	End Price Per Share	% Increase	Increase in Equity Value ($M)
Guidant	J&J	Boston Scientific	$64.00	$80.00	25.0%	$5,308.8
MCI	Verizon	Qwest	$20.75	$26.00	25.3%	$1,705.0
Maytag	Ripplewood	Whirlpool	$14.00	$21.00	50.0%	$557.9
Unocal	Chevron	Cnooc	$60.83	$62.43	2.6%	$432.9
Inamed	Medicis	Allergan	$75.00	$84.00	12.0%	$340.8
Hollywood	Leonard Green	Movie Gallery	$10.25	$13.25	29.3%	$182.7
Retek	SAP	Oracle	$8.50	$11.25	32.4%	$154.3
ShopKo	Goldner Hawn	Sun Capital	$24.00	$29.00	20.8%	$151.2
Goody's	Sun Capital	Prentice Capital	$8.00	$9.60	20.0%	$53.0
August Tech.	Nanometrics	Rudolph	$8.39	$10.50	25.1%	$38.7

Once a deal is "jumped," deal momentum often will drive the offer price to unanticipated levels, as the dueling acquirers seek to win the competitive auction and avoid the stigma of "losing" the battle. Put another way, it takes a tremendous amount of deal discipline for an acquirer to walk away from the deal process once it has begun. To compound matters, activist shareholders will often egg on the participants with public exhortations and 13D filings, further increasing the ultimate value to be received by target shareholders. Although target shareholders clearly benefit from this deal dynamic, it should be noted that the shareholders of the ultimate acquirer may be exposed to the detrimental effects of a "winner's curse" if the acquirer ultimately overpays.

In our last *M&A Insight Note* on the GDT situation, we noted that JNJ had used the "material adverse change" (MAC) clause of the merger contract to lower its offer price from approximately $76 to $64 per share. We pointed out that there generally is no "material beneficial change" clause that would give target shareholders a right to increase the offer price, and that absent a third-party bid that triggers fiduciary obligations, the only alternative available to target shareholders is to vote against a transaction. However, historically shareholders have tended to vote down only the most egregious transactions. JNJ was likely counting on the expected passivity of GDT shareholders when it aggressively cut its offer price, assuming that shareholder approval would be forthcoming. Instead, the 16% price cut opened the door for BSX, as it did



Expert Insight from Deal Announcement through Shareholder Vote

M&A Edge consists of three parts:

+ **M&A Edge Pipeline** reports give clients visibility into upcoming contentious situations by delivering a bi-weekly pipeline summary of contentious M&A and proxy contests. RiskMetrics Group tracks and updates the pipeline as deals and contests emerge and develop, providing expected vote dates. The pipeline allows clients to consider recalling shares on loan prior to the record date in order to affect their proxy vote.
+ **M&A Edge Notes**, or briefing reports, that extend from the time a deal is announced up to the shareholder meeting. Notes are designed to keep clients informed as a proposed transaction or a corporate control contest evolves.
+ **M&A Edge Analysis**, a complete analysis of the transaction with a vote recommendation. The final report and vote recommendation is issued approximately two weeks in advance of the shareholder meeting, at the same time and with the same recommendation and underlying rationale as our core proxy analysis.

These analyses include extensive discussions of the strategic rationale, valuation, negotiation process, shareholder rights and change in control payments in a data-intensive, chart-enriched format. Equipped with this information, clients are prepared to make an informed proxy voting decision.

M&A Pipeline provides a bi-weekly snapshot of potential and definitive M&A activity on the horizon

RiskMetrics Group

M&A Edge® Contentious/High Profile M&A Pipeline

The M&A Insight Pipeline is an informal list of prospective M&A and proxy contest situations which ISS deems to be "contentious." The M&A Insight Pipeline is not intended to be an exhaustive list of every potentially contentious situation. Situations referenced herein may no longer be contentious. Comments contained herein are derived only from public sources (including SEC filings and periodicals) and do not reflect the views of ISS. In no way should the contents herein be interpreted as an indication of ISS' likely vote recommendation on any particular situation. All dates are estimates and are subject to change.

Bold Face = M&A Insight coverage

#	Target	Ticker	Acquirer(s)	Ticker	Announcement Date	"Vote" Date *? = estimated date*	Public Comments / Status
1	American BioScience	N/A	American Pharma	APPX	November 28, 2005	March 28, 2006 ?	Conflicts, inflated valuation No merger vote - action taken by written consent (plus 20 days)
2	Burlington Resources	BR	ConocoPhillips	COP	December 12, 2005	March 30, 2006 √	Negative market reaction of acquirer Some analysts question price ISS rec FOR target
3	**Guidant**	**GDT**	**Boston Scientific**	**BSX**	**December 5, 2005**	**March 31, 2006** √	**Bust up of JNJ bid** **Overpayment by BSX. Collar ($22.62) could be triggered** **Insider buys push stock back into collar** **ISS rec FOR target and acquirer**
4	Lafarge	LAF	Lafarge SA	LR	February 6, 2006	April 3, 2006 √	Buy-in by 47% parent, looks cheap to some shareholders Tender offer - no vote rec Target rejects as too low; trading above offer price
5	Burlington Coat Factory Warehouse	BCF	Bain Capital	N/A	January 18, 2006	April 10, 2006 √	Controlled by family; low premium ISS rec FOR target
6	**Chiron**	**CHIR**	**Novartis AG**	**NVS**	**September 1, 2005**	**April 12, 2006** √	**Valuation concerns, with 44% owner "opportunistic" buy-in** **Novartis bumps bid** **ValueAct, CAM North America (Citigroup) opposed, seek buyback**
7	William Lyon Homes	WLS	William Lyon (Founder)	N/A	April 26, 2005	April 13, 2006 √	Shareholders unhappy with MBO valuation Offer rejected by special committee Lyon drops bid, then tried again; tender offer, no vote rec
8	Tommy Hilfiger	TOM	Apax Partners / Sowood Capital	N/A	December 23, 2005	April 22, 2006 ?	Sowood Capital filed 13D against deal based on low valuation, biased process
9	NorthWestern	NWEC	Black Hills vs. Montana Public Power	N/A	June 30, 2005	April 30, 2006 ?	Contested bids; hostile bid from Black Hills Franklin Mutual upset at pill Harbert seeking "sell the company" nonbinding resolution outside the proxy process

Our dedicated M&A research team combines extensive investment banking and law firm experience to bring clients a unique view into each deal or contest.

M&A Analysis provides in-depth analysis and a vote recommendation

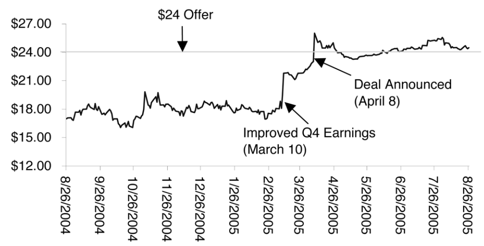
M&A Edge® – ShopKo Stores, Inc.

RiskMetrics Group

Goldner Hawn acquires ShopKo Stores, Inc. (SKO)

Announcement date	April 8, 2005	**Transaction Value**	$1.0 billion
Meeting Date	September 14, 2005	**Record Date**	August 1, 2005
Acquirer	Goldner Hawn	**Target**	ShopKo Stores
Sector	Private Equity	**Sector**	Retailing

Share Performance: SKO



Executive Summary – vote AGAINST this transaction

ShopKo Stores, Inc. ("SKO") has agreed to a leveraged buyout ("LBO") transaction with Goldner Hawn Johnson & Morrison Incorporated ("Goldner Hawn"), a private equity firm, pursuant to which SKO shareholders will receive $24.00 per share in cash. John A. Levin & Co. ("Levin"), a 6% hedge fund shareholder, has publicly attacked the deal as delivering insufficient value.

Shareholders are palpably upset that Goldner Hawn is investing an aggressively below market 3% in the buyout. While one can compliment Goldner Hawn on obtaining such favorable terms, one can also reasonably question whether the board could have negotiated a higher price for shareholders based on an augmented equity participation level. The board counters that this is the highest bid on the table, and the risk is that Goldner Hawn will walk away without raising its offer. Based on the evidence before us, however, we cannot be comfortable that additional value was not available.

If the deal is voted down, SKO claims that the stock is unlikely to trade higher because of the long sales process and lack of approaches by third party bidders post-announcement. However, based on the stock price rally prior to signing, the real estate value underlying the company, the positive projected FCFE, the less than rigorous sales process, and the fact that the stock currently trades above the offer price, we believe that the downside risk is limited. Therefore, based upon the factors and analysis as described below, we recommend that shareholders vote AGAINST the proposed transaction.

With the increased volume and complexity of contentious issues, M&A Edge is an important tool for institutional investors to examine the key issues that affect them, ultimately culminating in a final report and vote recommendation that is driven by shareholder value.

For more information on this and other solutions from RiskMetrics Group, please email marketing@riskmetrics.com, visit www.riskmetrics.com, or call:

Chicago ..... +1 312.977.1707
Frankfurt .... +49 (0) 69.2729.8659
London...... +44 (0) 20.7063.5600
Melbourne... +61 3 9642.2062
New York .... +1 212.981.7475
Paris .... +33 1 42.68.51.42
Rockville .... +1 301.556.0540
Singapore ... +65 6826.9339
Tokyo .... +81 3 5275.7821
Toronto...... +1 416.364.9000

M&A Edge provides objective analyses to guide you through the evolution of M&A deals and corporate control contests.

About RiskMetrics Group:

RiskMetrics Group is a leading provider of risk management products and services to financial market participants. By bringing transparency, expertise and access to the financial markets, we help investors better understand and manage the risks inherent in their financial portfolios. Our solutions address the market, credit, portfolio, governance, accounting, legal and environmental risks of our clients' financial assets. Headquartered in New York with 19 offices worldwide, RiskMetrics Group serves more than 2,300 institutions and 1,000 corporations in 50 countries. For more information, please visit www.riskmetrics.com.

RiskMetrics Group

Ann Arbor · Brussels · Cambridge · Chicago · Frankfurt · Geneva · London · Manila · Melbourne · New Jersey · New York · Oklahoma · Paris · Rockville · San Francisco · Singapore · Tokyo · Toronto · Washington DC