

GLOBALT Investments  
2007 Proxy Voting Policies

*GLOBALT has implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC rule 206(4)-6 under the Investment Advisers Act of 1940. Our authority to vote the proxies of our clients is established by our advisory contracts. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts.*

*In an effort to make more informed proxy voting decisions, GLOBALT hired Glass Lewis & Co. as of December 2004 to act as our proxy advisor. Glass Lewis provides GLOBALT with in-depth research on all proxies issued by the companies in our clients' portfolios and voting recommendations for all proposals contained in those proxies. GLOBALT has complete decision-making authority and instructs Glass Lewis whether we accept their recommendation or disagree and how we wish them to vote. We have every confidence that this added benefit only enhances our service to our clients as we make voting decisions in the best economic interest of the portfolios.*

*The following is a summary of our proxy voting policies. References to "GLOBALT/we" include internal personnel, as well as third party service vendors.*

## **Policy Overview**

### **I. A Board of Directors that Serves the Interests of Shareholders**

#### ***Election of Directors***

GLOBALT looks for talented boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders typically possess the following three characteristics: (1) independence; (2) a record of positive performance; and (3) members with a breadth and depth of experience.

#### ***Independence***

GLOBALT looks at each individual on the board and examines his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships (apart from compensation as a director) are likely to impact the decisions of that board member. We believe the existence of personal, familial or financial relationships makes it difficult for a board member to put the interests of the shareholders whom she is elected to serve above her own interests or those of the related party.

To that end, we classify directors in three categories based on the type of relationships they have with the company:

1. *Independent Director* - A director is independent if she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within three to five (3-5) years prior to the inquiry are usually considered to be "current" for purposes of this test.
2. *Affiliated Director* - A director is affiliated if she has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This includes directors whose employers have a material financial relationship with the Company. In

addition, we view a director who owns or controls 20% or more of the company's voting stock as an affiliate.

3. *Inside Director* – An inside director is one who simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company.

GLOBALT believes that a board will most effectively perform the oversight necessary to protect the interests of shareholders if it is independent. In general, we feel that at least two-thirds of the members of the board should consist of independent directors. In the event that more than one third of the members are affiliated or inside directors, GLOBALT typically withholds votes from some of the inside and/or affiliated directors in order to satisfy the two-thirds threshold we believe is appropriate.

We believe that only independent directors should serve on a company's audit, compensation, nominating and governance committees. GLOBALT typically withholds votes for any affiliated or inside director seeking appointment to an audit, compensation, nominating or governance committee or who has served in that capacity in the past year.

In addition, we apply heightened scrutiny to avowedly "independent" chairmen and lead directors. We believe that they should be unquestionably independent or the company should not tout them as such.

### ***Performance***

GLOBALT favors governance structures that will drive performance and create shareholder value. The most crucial test of a board's commitment to the company and to its shareholders lies in the actions of the board and its members. We look at the performance of these individuals in their capacity as board members and executives of the company and in their roles at other companies where they may have served.

We disfavor directors who have a track record of poor performance in fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. GLOBALT typically withholds votes from the following:

Board members generally:

1. A director who fails to attend a minimum of 75% of the board meetings and applicable committee meetings.
2. A director who belatedly filed a significant form(s) 4 or 5, or has a pattern of late filings (We look at these forms on a case-by-case basis).
3. A director who is also the CEO of a company where a serious restatement has occurred after the CEO certified the pre-restatement financial statements.
4. A director who has received two "withhold" recommendations from GLOBALT advisor Glass Lewis for identical reasons within the prior year at other companies.

Audit committee members:

1. All members of an audit committee who are up for election and who served on the committee at the time of the audit, if audit and audit-related fees total 1/3 or less of the total fees billed by the auditor.
2. All members of an audit committee where non-audit fees include fees for tax services for senior executives of the company or involve services related to tax avoidance or tax shelter schemes.

3. All members of an audit committee that re-appointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.
4. All members of an audit committee where the auditor has resigned and reported that a Section 10A Letter has been issued.
5. All members of an audit committee at a time when accounting fraud occurred at the company.
6. All members of an audit committee at a time when financial statements had to be restated due to negligence or fraud.
7. All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion.
8. All members of an audit committee at a time when the company fails to report or to have its auditor report material weaknesses in internal controls.
9. All members of an audit committee when audit fees are excessively low, especially when compared with other companies in the same industry.
10. The audit committee chair if the committee failed to put auditor ratification on the ballot for shareholder approval for the upcoming year and fees for the past two years are reasonable (i.e. audit plus audit-related fees are higher than tax fees and higher than all other fees).
11. All members of an audit committee if the committee failed to put auditor ratification on the ballot for shareholder approval, if the non-audit fees or tax fees exceed audit plus audit-related fees in either the current or the prior year.
12. The chair of the audit committee if the committee does not have a financial expert or has a financial expert who does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.
13. The audit committee chair if the audit committee did not meet at least 4 times during the year.
14. The audit committee chair if the committee has less than three members.
15. All audit committee members who sit on more than three public company audit committees.
16. All members of the audit committee when the company receives a "material weakness" letter from the auditor in their 10-K.

Compensation committee members:

1. All members of the compensation committee who are currently up for election and served at the time of poor pay-for-performance.
2. All members of the compensation committee (during the relevant time period) if excessive employment agreements and/or severance agreements were entered into.
3. All members of the compensation committee if performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals or performance-based compensation was paid despite goals not being attained.
4. All members of the compensation committee if excessive employee perquisites and benefits were allowed.
5. The compensation committee chair, if the compensation committee did not meet during the year, but should have (e.g., executive compensation was restructured or a new executive was hired).
6. Any member of the compensation committee who has served on the compensation committee of at least two other public companies where compensation is not in line with performance and is also suspect at the company in question.

Governance committee members:

1. All members of the governance committee during whose tenure the board failed to implement a shareholder proposal with a direct and substantial impact on shareholders and their rights (i.e., where the proposal received a sufficient number (i.e., at least a majority of shares voting) of shareholder votes to allow the board to implement or take the necessary precursor steps toward implementing that proposal).
2. The governance committee chair when the chairman is not independent and an independent lead or presiding director has not been appointed.

Nominating committee members:

1. All members of the nominating committee when the committee nominated or renominated an individual who had a significant conflict of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.
2. The nominating committee chair, if the nominating committee did not meet during the year, but should have (i.e., new directors were nominated).
3. In the absence of a governance committee, the nominating committee chair when the chairman is not independent and an independent lead or presiding director has not been appointed.

### ***Experience***

GLOBALT typically withholds votes from directors who have served on boards or as executives of companies with track records of poor performance, overcompensation, audit or accounting related issues and/or other indicators of mismanagement or actions against the interests of shareholders

Likewise, GLOBALT looks for boards with talented directors who have a diversity of backgrounds and experience that will enable them to understand the issues particular to the company where they serve and who collectively have the ability to review and judge the critical issues they decide on behalf of shareholders.

Where GLOBALT believes this diversified talent is missing from the board, we withhold votes as appropriate to address the issue.

### ***Other Considerations***

Irrespective of the overall presence of independent directors on the board, we believe that a board should be wholly free of people who have an identifiable and substantial conflict of interest. Accordingly, GLOBALT withholds votes from the following types of affiliated or inside directors under nearly all circumstances.

Conflict of Interest:

1. CFO who presently sits on the board. In our view, the CFO holds a unique position relative to financial reporting and disclosure to shareholders. Because of the critical importance of financial disclosure and reporting, we believe the CFO should report to and not sit on the board.
2. Director who presently sits on an excessive number of boards. A board member who serves as an executive officer of any public company while serving on more than a total of four public company boards and any other director who serves on more than a total of six public company boards typically receives a withhold vote from GLOBALT.

3. Director, or a director who has an immediate family member, who is currently providing consulting or other material professional services to the company. The one exception to this is for a representative of a law firm where the firm serves as general counsel to the company (or the board member serves as general counsel) if there is 1/3 or fewer affiliates and insiders on the board, including that director. These services may include legal, consulting or financial services to the company.
4. Director, or a director who has an immediate family member, who engages in airplane, real estate or other similar deals, including perquisite type grants from the company.
5. Current interlocking directorships. CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure promotion of shareholder interests above all else.

While we do not believe there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors in order to ensure that there is a sufficient diversity of views and breadth of experience in every decision the board makes and to enable the formation of key board committees with independent directors. At the other end of the spectrum, we believe that boards whose size exceeds 15 will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions.

To that end, we typically vote against the chairman of a board with fewer than 5 directors. With boards consisting of more than 20 directors, we typically vote against the members of the governance committee (or the nominating committee in the absence of a governance committee). For boards with between 15 and 20 directors, we make a case-by-case determination.

### ***Controlled Companies***

Controlled companies present an exception to our independence recommendations. The board of directors' function is to protect the interests of shareholders; however, when a single individual or entity owns more than 50% of the voting shares, then the interests of the majority of shareholders are the interests of that entity or individual. Consequently, GLOBALT does withhold votes from boards whose composition reflects the makeup of the shareholder population. In other words, affiliates and insiders who are associated with the controlling entity are not subject to the two-thirds independence rule.

The independence exceptions that we make for controlled companies are as follows:

1. We do not require that controlled companies have boards that are at least two-thirds independent. So long as the insiders and/or affiliates are connected with the controlling entity, we accept the presence non-independent board members.
2. The compensation committee and nominating and governance committee(s) do not need to consist of independent directors.
  - a. We believe that controlled companies do not need to have standing nominating and corporate governance committees. Although a committee charged with the duties of searching for, selecting and nominating independent directors can be of benefit to all companies, the unique composition of controlled companies' shareholder base make such a committee both less powerful and less relevant.
  - b. We do not require compensation committees at controlled companies to be independent. Although we believe the duties of a committee charged with approving and monitoring the compensation awarded to a company's senior executives would best be executed by independent directors, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.
  - c. In a similar fashion, controlled companies do not need to have an independent chairman or a lead or presiding director. Although, in our opinion, an independent director in a position of authority on the board – such as the chairman or presiding director – is best able to ensure the proper discharge of the

board's duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.

We do not make independence exceptions for controlled companies in the case of audit committee membership. Audit committees should consist solely of independent directors. Regardless of the company's controlled status, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements.

In the case where an individual or entity owns more than 50% of the company's voting power but the company is not deemed a "controlled" company, we lower our independence requirement from 2/3rds to a majority of the board and keep all other standards in place.

### ***Separation of the roles of Chairman and CEO***

GLOBALT believes that separating the roles of corporate officers and the chairman of the board is typically a better governance structure than a combined executive/chairman position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the board for their performance in achieving the goals set out by the board. This becomes much more complicated when management actually sits on, or chairs, the board.

We view an independent chairman as better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else.

GLOBALT votes for proposals to separate the roles of chairman of the board and CEO, except in circumstances where the existing arrangement has worked out to be economically beneficial to shareholders so as not to warrant a change at the time proposed.

In the absence of an independent chairman, GLOBALT votes for a presiding or lead director with authority to set the agenda for the meetings and to lead sessions outside the presence of the insider chairman.

### ***Declassified Boards***

GLOBALT generally votes for the repeal of staggered boards and the annual election of directors. We believe that staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel that the annual election of directors encourages board members to focus on the interests of shareholders.

### ***Mandatory Director Retirement Provisions***

#### ***Director Term Limits***

Term limits are typically not in the best interests of shareholders. GLOBALT generally votes against term limits. The academic literature available on this subject suggests there is no evidence of a correlation between tenure on the board and a director's performance. Although, on occasion, term limits serve as a crutch for boards that are unwilling to take the steps necessary to police their membership and make the difficult decisions pertaining to when turnover is appropriate. Some shareholders also support term limits as a way to force change where boards lack the fortitude to make changes on their own.

GLOBALT believes the experience of directors through their service over time can be a valuable asset to shareholders as directors navigate complex and critical issues faced by the board. However, we understand and support the need for periodic director rotation to ensure a fresh perspective in the board room and the generation of new ideas and business strategies. Therefore, in certain circumstances, we vote for term limits that are set at not less than 10 years.

#### ***Director Age Limits***

GLOBALT believes that age limits are not in the best interests of shareholders. Age limits unfairly imply that older directors (or in rare cases, younger) cannot contribute to the oversight of a company. The academic literature available on this subject suggests there is no evidence of a correlation between age and a director's performance. Age limits serve as a crutch for boards that are unwilling to take the steps necessary to police their membership and make the difficult decisions pertaining to when turnover is appropriate. While we understand the support for age limits by some institutions as a way to force change where boards lack the fortitude to make changes on their own, the long term impact of these limits is to restrict experienced and potentially valuable board members from service at an arbitrary cut-off date. The experience of directors through their service over time can be a valuable asset to shareholders as directors navigate complex and critical issues faced by the board. Accordingly, GLOBALT generally votes against age limits for directors. Only in situations where we feel a needed change has not occurred through other means might GLOBALT vote in favor of such a limit.

### ***Requiring Two or More Nominees per Board Seat***

There have been a number of shareholder proposals in recent years that have attempted to address a growing sentiment among shareholders that director elections should be more than just for show. One such proposal requires that the board give shareholders a choice of directors for every seat in every election.

GLOBALT generally votes for proposals seeking to open the election process to multiple nominees or requiring a minimum threshold of support for a director's election. This process is more likely to produce a qualified board of directors, and a board that is more responsive to shareholders than the system currently in place at most companies.

## **II. Transparency and Integrity of Financial Reporting**

### ***Auditor Ratification***

We believe the role of the auditor is crucial in protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do thorough analysis of the company's books to ensure that the information ultimately provided to shareholders is accurate, fair and a reasonable representation of the company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about the fiscal health of the company.

In our view, shareholders should demand the services of an objective and well-qualified auditor at every company in which they hold an interest. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the public they serve. Almost without exception, shareholders should be given the opportunity to review the performance of the auditor annually and ratify the board's selection of an auditor for the coming year.

GLOBALT generally votes for management's recommendation regarding the selection of an auditor except in cases where we believe the independence of a returning auditor or the integrity of the audit has been compromised. Where the board has not allowed shareholders to exercise their right and responsibility to review and ratify the auditor, we typically withholding votes from the chairman of the audit committee of the board and occasionally from the entire audit committee in exceptional situations.

Reasons why we may vote against ratification of the auditor include:

- When audit fees added to audit-related fees total less than the tax fees and/or less than other non-audit fees.

- If there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g. a restatement due to a reporting error).
- When the auditor performs tax shelter work or work for a contingent type fee including a fee based on a percentage of economic benefit to the company.
- When audit fees are excessively low, especially when compared with other companies in the same industry.
- When the company has aggressive accounting policies.
- When the company has poor disclosure or lack of transparency in its financial statements.
- We also look for other relationships or issues of concern with the auditor that might suggest a conflict between the interests of the auditor and the interests of shareholders.

We typically support audit related proposals regarding:

- Mandatory auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years).

### ***Pension Accounting Issues***

The question often raised in proxy proposals related to pension accounting is what effect, if any, projected returns on employee pension assets should have on the Company's net income. This issue often comes up in the context of executive compensation and the extent to which pension accounting should be reflected in the performance of the business for purposes of calculating payments to executives.

GLOBALT believes that pension credits should not be included in measuring income used to award performance-based compensation. Many of the assumptions used in accounting for retirement plans are subject to the discretion of a company, and management would have an obvious conflict of interest if pay were tied to pension income. In our view, projected income from pensions does not truly reflect a company's performance.

### ***Reporting Contributions and Political Spending***

GLOBALT believes that disclosure regarding how a company uses its funds is an important component of corporate accountability to shareholders. However, the area of campaign contributions is heavily regulated by federal, state and local laws. Most jurisdictions around the country have detailed disclosure laws and information on contributions is readily available to the public. Other than in exceptional circumstances (e.g. where the Company does not adequately disclose information about its contributions to shareholders or where the Company has a history of abuse in the donation process) we believe that the mechanism for disclosure and the standards for giving are best left to the board.

## **III. The Link Between Compensation and Performance**

### ***Equity-Based Compensation Plans***

GLOBALT evaluates option and other equity-based compensation plans on a case-by-case basis. We believe that equity compensation awards are a useful tool, when not abused, for retaining and incentivizing employees to engage in conduct that will improve the performance of the Company.

We recognize that equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, we take factors such as the administration of the plan, the method and terms of exercise, re-pricing history and express or implied rights to re-price, the presence of evergreen provisions and other factors into account in our analysis.

GLOBALT uses the proprietary model developed by its third-party advisor, Glass Lewis, to evaluate plans based on each of the following principles:

- Companies should seek more shares only when they need them.
- Plans should be small enough that companies need approval every three to four years (or less) from shareholders.
- If a plan is relatively expensive, it should not be granting options solely to senior executives and board members.
- Annual net share count and voting power dilution should be limited.
- Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and in line with the peer group.
- The expected annual cost of the plan should be proportional to the value of the business.
- The intrinsic value received by option grantees in the past should be reasonable compared with the financial results of the business.
- Plans should deliver value on a per-employee basis when compared with programs at peer companies.
- Plans should not permit re-pricing of stock options.
- Plans should not contain excessively liberal administrative or payment terms.

### ***Option Exchanges***

GLOBALT disfavors option exchanges, which re-price options after their initial grant. Shareholders have substantial, real downside risk in owning stock and we believe that the employees, officers and directors that receive stock options should be similarly situated to align interests optimally. We are concerned that option grantees who believe they will be “rescued” from underwater options will be more inclined ab initio to take on unjustifiable risks. Moreover, a predictable pattern of re-pricing or exchanges substantially alters the value of the stock option in the first instance; options that will practically never expire deeply out of the money are worth far more than options that have such a risk. In short, re-pricings and option exchange programs change the bargain between shareholders and employees after the bargain has been struck. Re-pricing is tantamount to a re-trade. As such, GLOBALT generally votes against option exchanges.

There is one circumstance in which a re-pricing or option exchange program is acceptable, namely, if the value of a stock has declined dramatically because of macroeconomic or industry trends (rather than specific company issues) and re-pricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original equity-based compensation “bargain” was struck. In such a circumstance, we will vote for a re-pricing only if the following conditions are true:

- (i) officers and board members do not participate in the program;
- (ii) the stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude;

(iii) the exchange is value neutral or value creative to shareholders with very conservative assumptions and a recognition of the adverse selection problems inherent in voluntary programs; and  
(iv) management and the board make a cogent case for needing to incentivize and retain existing employees, such as being in a competitive employment market.

### ***Performance Based Options***

GLOBALT believes in performance-based equity compensation plans for senior executives. We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. While we do not believe that equity-based compensation plans for all employees need to be based on overall company performance, we do support such limitations for grants to senior executives (although even some equity-based compensation of senior executives without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment).

Boards often argue that such a proposal would hinder them in attracting talent. We believe that boards can develop a consistent, reliable approach, as boards of many companies have, that would still attract executives who believe in their ability to guide the company to achieve its targets. If the board believes in performance-based compensation for executives, then these proposals typically will not hamper the board's ability to create such compensation plans.

GLOBALT generally votes for performance-based option requirements.

### ***Linking Pay with Performance***

GLOBALT strongly believes that executive compensation should be linked directly with the performance of the business the executive is charged with managing. GLOBALT's advisor, Glass Lewis, has a proprietary pay-for-performance model that evaluates compensation of the top five executives at every company in the Russell 3000. The Glass Lewis model benchmarks the compensation of these executives compared with their performance using three peer groups for each company: an industry peer group, a smaller sector peer group and a geographic peer group. Using a forced curve and a school letter-grade system, Glass Lewis ranks companies according to their pay-for-performance.

GLOBALT uses this analysis to inform our voting decisions on each of the compensation issues that arise on the ballot. Likewise, we use this analysis in our evaluation of the compensation committee's performance.

### ***162(m) Plans***

Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of \$1 million for the CEO and the next four most highly compensated executive officers upon shareholder approval of the excess compensation. GLOBALT recognizes the value of executive incentive programs and the tax benefit of shareholder-approved incentive plans. We also believe that this provision enables us to provide important review and consent of executive compensation, a subject that has raised some troubling concerns at several companies over the past few years.

Given the shareholder approval requirement of section 162(m), we believe that companies must provide reasonable disclosure to shareholders so that they can make sound judgments about the reasonableness of the proposed plan. In order to allow for meaningful shareholder review, we believe that these proposals should generally include: specific performance goals; a maximum award pool; and a maximum award amount per employee. We also believe it is important to analyze the estimated grants to see if they are reasonable and in line with the Company's peers.

Where companies fail to provide the very minimum disclosure set forth above or where the proposed plan is excessive when compared with those of the companies' peers, GLOBALT typically votes against the plan. The company's track record of aligning pay with performance (as evaluated using Glass Lewis' proprietary Pay-for-Performance model) also plays a role in our recommendation on this issue. Where a

company has a track record of reasonable pay relative to the performance of the business, we are not typically inclined to vote against a plan even if the plan caps seem large relative to peers because we recognize the value of having the option of special compensation arrangements for continued exceptional performance.

### ***Director Compensation Plans***

Non-employee directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, we support compensation plans that include option grants or other equity-based awards, which help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals. However, excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required.

Glass Lewis uses a proprietary model and analyst review to evaluate the costs of those plans compared to the plans of peer companies with similar market capitalizations. GLOBALT uses the results of this model to assist in making our voting decisions on director compensation plans.

### ***Options Expensing***

GLOBALT strongly favors the expensing of stock options. We believe that stock options are an important component of executive compensation and that the expense of that compensation should be reflected in a company's operational earnings. When companies refuse to expense options, the effect of options on the company's finances is obscured and accountability for their use as a means of compensation is greatly diminished. We will always vote for a proposal to expense stock options.

### ***Limits on Executive Compensation***

As a general rule, GLOBALT believes that shareholders should not be involved in setting executive compensation. Such matters should be left to the board's compensation committee. We view the election of directors, and specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance is in line with its peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, GLOBALT favors performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. Performance-based compensation may be limited if a CEO's pay is capped at a low level rather than flexibly tied to the performance of the Company.

### ***Limits on Executive Stock Options***

Stock options are a common form of compensation for senior executives. Options are a very important component of compensation packages to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an excellent incentive to maximize share values by those in the best position to affect those values. Accordingly, we typically vote against caps on executive stock options.

### ***Linking Pay to Social Criteria***

GLOBALT believes that ethical behavior is an important component of executive performance and should be taken into account when evaluating performance and determining compensation. We also believe, however, that the board and specifically its compensation committee are in the best position to set policy on management compensation. The board's compensation committee can be held accountable for the compensation awarded through the election of directors.

### ***Full Disclosure of Executive Compensation***

GLOBALT believes that disclosure of information regarding compensation is critical to enabling the evaluation of the extent to which a company's pay is keeping pace with its performance. However, we are concerned when a proposal goes too far in the level of detail that it requests for executives other than the most high-ranking leaders of the company. Shareholders are unlikely to need or be able to use information based on the individual level except in the case of senior corporate officers. Moreover, it will rarely be in the interests of shareholders to give away competitive data about salaries at the individual level, which information is not otherwise available. This sort of disclosure requirement could also create internal personnel issues that would be counterproductive for the company and its shareholders.

While we are in favor of full disclosure for senior executives and we view information about compensation at the aggregate level (e.g. number of employees being paid over a certain amount or in certain categories) potentially very useful, we do not believe that shareholders need or will benefit from detailed reports about individual management employees other than the most senior executives.

#### **IV. Governance Structure and the Shareholder Franchise**

##### ***Anti-Takeover Measures***

##### ***Poison Pills (Shareholder Rights Plans)***

Poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. Typically GLOBALT votes against these plans to protect their financial interests and ensure they have the opportunity to consider any offer for their shares, especially those at a premium.

Boards should be given wide latitude in directing the activities of the company and charting the company's course. However, on an issue such as this, where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation. This issue is different from other matters that are typically left to the board's discretion. Its potential impact on and relation to shareholders is direct and substantial. It is also an issue in which the interests of management may be very different from those of shareholders and therefore ensuring shareholders have a voice is the only way to safeguard their interests.

In certain limited circumstances, we will vote for a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable 'qualifying offer' clause. We will consider supporting a poison pill plan if the provisions of the qualifying offer clause include the following attributes: (i) the form of offer is not required to be an all-cash transaction; (ii) the offer is not required to remain open for more than 90 business days; (iii) the offeror is permitted to make amendments to the offer, to reduce the offer or otherwise change the terms; (iv) there is no fairness opinion requirement; and (v) there is a low to no premium requirement. Where these requirements are met, we typically feel comfortable that shareholders will have the opportunity to voice their opinion on any legitimate offer.

##### ***Right of Shareholders to Call a Special Meeting***

GLOBALT strongly supports the right of shareholders to call special meetings. However, in order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15% of the shareholders requesting such a meeting. A lower threshold may leave companies subject to meetings whose effect might be the disruption of normal business operations in order to focus on the interests of only a small minority of owners.

##### ***Shareholder Action by Written Consent***

GLOBALT strongly supports the right of shareholders to act by written consent. However, in order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15% of the shareholders requesting action by written consent. A lower threshold may leave companies subject to meetings whose effect might be the disruption of normal business operations in order to focus on the interests of only a small minority of owners.

### ***Authorized Shares***

Adequate capital stock is important to the operation of a company. When analyzing a request for additional shares, GLOBALT typically reviews four common reasons why a company might need additional capital stock beyond what is currently available:

- (i) Stock Split –
- (ii) Shareholder Defenses
- (iii) Financing for Acquisitions
- (iv) Financing for Operations

Issuing additional shares can dilute existing holders in limited circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where GLOBALT finds that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, GLOBALT typically votes against the authorization of additional shares. While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

### ***Advance Notice Requirements for Shareholder Ballot Proposals***

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements typically range between three to six months prior to the annual meeting. These proposals typically make it impossible for a shareholder who misses the deadline to present a shareholder proposal or a director nominee that might be in the best interests of the company and its shareholders.

We believe it is best for shareholders to have the opportunity to review and vote on all proposals and director nominees that arise. Shareholders can always vote against those proposals that appear with little prior notice. However, shareholders, as owners of the business, are capable of identifying those issues where they have sufficient information and ignoring those where they do not. Setting arbitrary notice restrictions simply limits the opportunity for shareholders to raise issues that may come up after the arbitrary window closes until the following year's annual meeting.

Accordingly, GLOBALT typically votes against these proposals.

### ***Voting Structure***

#### ***Cumulative Voting***

Cumulative voting is a voting process that maximizes the ability of minority shareholders to ensure representation of their views on the board. Cumulative voting can play an especially important role where a board is controlled mainly by insiders or affiliates and where the company's ownership structure includes one or more very large shareholders that typically control a majority-voting block of the company's stock. In those situations, shareholders need the protections of cumulative voting to ensure their voices are heard. GLOBALT believes that cumulative voting generally operates as a safeguard for shareholders by ensuring that those who hold a significant minority of shares are able to elect a candidate of their choosing to the board. This allows the creation of boards that are broadly responsive to the interests of all shareholders rather than simply to a small group of large holders.

The recent academic literature on this subject indicates that where a highly independent board is in place and the company has a shareholder friendly governance structure, shareholders may be better off without cumulative voting. The analysis underlying this literature indicates that shareholder returns at firms with good governance structures are lower and that boards can become factionalized and prone to evaluating the needs of special interests over the general interests of shareholders collectively.

Accordingly, GLOBALT reviews these proposals on a case-by-case basis factoring in the independence of the board and the status of the company's governance structure. However, we typically find that these proposals are on ballots where independence is lacking and appropriate checks and balances that favor shareholders are not in place. In those instances, GLOBALT typically votes for cumulative voting.

### ***Supermajority Vote Requirements***

GLOBALT believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests. One key example is in the takeover context where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business.

### ***Transaction of Other Business at an Annual or Special Meeting of Shareholders***

GLOBALT believes that shareholders should have a say in all matters up for a vote. Therefore, we generally do not vote to give our proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

### ***Conflicts of Interest***

In the case of material conflicts of interest, GLOBALT, in accordance with this pre-determined policy, would vote proxies based on the recommendation of our independent third-party advisor (Glass Lewis).

### ***Offshore Reincorporation***

#### ***U.S. to Offshore***

We generally oppose "corporate inversion" transactions, which generally involve a move from the United States to a country with lower corporate tax rates. While we recognize that there are often significant tax advantages to the company from such a reincorporation, there are real and substantial disadvantages, namely: (i) these transactions constitute a taxable event under section 367 of the Internal Revenue Code, such that shareholders will recognize a gain to the extent that the share price at closing exceeds their basis in the stock; (ii) shareholders often have fewer rights in these foreign jurisdictions (and what rights they do have are certainly less well understood and harder to enforce), including, for example, that Bermuda does not allow for automatic enforcement of U.S. judgments such as derivative action judgments; (iii) there are potential economic and political ramifications – such as denial to federal contracts -- that could substantially injure the fundamental business operations and success of the company; and (iv) the tax advantages may be short-lived – or even illusory -- as evidenced by pending congressional bills that threaten to reduce or eliminate the tax advantages associated with inversion transactions both prospectively and retroactively. See Office of Tax Policy, Department of the Treasury, Corporate Inversion Transactions: Tax Policy Implications at 3 n.2 (citing introduced bills). Accordingly, we will rarely, if ever, be supportive of an inversion transaction that involves a reincorporation outside of the United States.

#### ***Offshore to U.S.***

Proposals concerning reincorporating the company in a U.S. state involve quite a different analysis. At this point, the company in question is already experiencing the tax benefits of being a Bermuda or other non-U.S. corporation, and we believe the stock price often reflects that status.

We take the company's trailing price-to-earnings multiple to calculate how much the tax savings is actually worth and what percentage of the company's market capitalization it represents. Since the academic evidence suggests that companies that move offshore do not experience reduced price-to-earning ratios, we anticipate that reincorporating in the U.S. would likely not affect the Company's current multiple. Accordingly, we estimate what a move back to the United States will likely cost shareholders as a percentage of the value of their stock. By taking the company's current stock price, we can then estimate what it will be at solely as a result of reincorporation in the U.S.

Commonly, proponents of returning to the U.S. have suggested that the company in question might lose business (such as government contracts) by virtue of being domiciled offshore. We can calculate how much the company would have to lose in revenue to offset the tax advantages it currently obtains by being domiciled offshore, and in the cases we have reviewed, it has not been a strong argument when you look at the figures.

We note that for some shareholders, reincorporation in the United States may create a taxable event, depending on how such a transaction is structured and the stock price at the time of the closing. We are concerned that shareholders whose basis is less than the stock price at that time may have another tax realization event hard on the heels (assuming the company recently reincorporated outside of the U.S.) of the one incurred when the company originally reincorporated offshore.

Finally, we agree with proponents' argument that incorporating in a U.S. state would increase U.S. shareholders' ability to enforce their rights against officers and directors. Recent experience has underscored the importance of a well-settled body of law, as well as the importance of being able to enforce a judgment when officers and directors breach their fiduciary duties. There also may be, proponents often point out, substantial harm to the company's reputation and image as a result of its being domiciled offshore.

Weighing all of these factors, however, we conclude that the admittedly important benefits cited by proponents are generally outweighed by the potential stock price effect.

## **V. Shareholder Initiatives and Management of the Firm**

GLOBALT evaluates shareholder proposals on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to political, social or environmental issues to management and the board except when we see a clear and direct link between the proposal and some economic or financial issue for the company.

### ***Labor Standards and Human Rights***

GLOBALT supports proposals that seek to protect human rights, improve workplace diversity, and advance equal employment opportunities.

### ***China Principles***

GLOBALT votes against proposals to implement the China Principles unless:

- There are serious controversies surrounding the company's China operations; and
- The company does not have a code of conduct with standards similar to those promulgated by the International Labor Organization (ILO).

### ***Country-Specific Human Rights reports***

GLOBALT votes case-by-case on requests for reports detailing the company's operations in a particular country and steps to protect human rights, based on:

- The nature and amount of company business in that country;
- The company's workplace code of conduct;
- Proprietary and confidential information involved;
- Company compliance with U.S. regulations on investing in the country; and
- Level of peer company involvement in the country.

### ***International Codes of Conduct/Vendor Standards***

GLOBALT votes case-by-case on proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring. In evaluating these proposals, the following should be considered:

- The company's current workplace code of conduct or adherence to other global standards and the degree they meet the standards promulgated by the proponent;
- Agreements with foreign suppliers to meet certain workplace standards;
- Whether company and vendor facilities are monitored and how;
- Company participation in fair labor organizations;
- Type of business;
- Proportion of business conducted overseas;
- Countries of operation with known human rights abuses;
- Whether the company has been recently involved in significant labor and human rights controversies or violations;
- Peer company standards and practices; and
- Union presence in company's international factories

GLOBALT generally votes for reports outlining vendor standards compliance unless any of the following apply:

- The company does not operate in countries with significant human rights violations;
- The company has no recent human rights controversies or violations; or
- The company already publicly discloses information on its vendor standards compliance.

### ***MacBride Principles***

GLOBALT votes case-by-case on proposals to endorse or increase activity on the MacBride Principles, taking into account:

- Company compliance with or violations of the Fair Employment Act of 1989;
- Company antidiscrimination policies that already exceed the legal requirements;
- The cost and feasibility of adopting all nine principles;
- The cost of duplicating efforts to follow two sets of standards (Fair Employment and the MacBride Principles);
- The potential for charges of reverse discrimination;
- The potential that any company sales or contracts in the rest of the United Kingdom could be negatively impacted;
- The level of the company's investment in Northern Ireland;
- The number of company employees in Northern Ireland;
- The degree that industry peers have adopted the MacBride Principles; and

- Applicable state and municipal laws that limit contracts with companies that have not adopted the MacBride Principles.

### ***Workplace Diversity***

#### ***Board Diversity***

GLOBALT generally votes for reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business; or
- The board already reports on its nominating procedures and diversity initiatives.

GLOBALT votes case-by-case on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity;
- Comparison with peer companies;
- Established process for improving board diversity;
- Existence of independent nominating committee;
- Use of outside search firm; and
- History of EEO violations.

#### ***Equal Employment Opportunity (EEO)***

GLOBALT generally votes for reports outlining the company's affirmative action initiatives unless all of the following apply:

- The company has well-documented equal opportunity programs;
- The company already publicly reports on its company-wide affirmative initiatives and provides data on its workforce diversity; and
- The company has no recent EEO-related violations or litigation.

GLOBALT votes against proposals seeking information on the diversity efforts of suppliers and service providers, which can pose a significant cost and administration burden on the company.

#### ***Glass Ceiling***

GLOBALT votes for reports outlining the company's progress toward the Glass Ceiling Commission's business recommendations, unless:

- The composition of senior management and the board is fairly inclusive;
- The company has well-documented programs addressing diversity initiatives and leadership development;
- The company already issues public reports on its company-wide affirmative initiatives and provides data on its workforce diversity; and
- The company has had no recent, significant EEO-related violations or litigation.

#### ***Sexual Orientation***

GLOBALT votes for proposals seeking to amend a company's EEO statement in order to prohibit discrimination based on sexual orientation, unless the change would result in excessive costs for the company.

GLOBALT votes against proposals to extend company benefits to or eliminate benefits from domestic partners. Benefits decisions should be left to the discretion of the company.

#### ***Military and US Government Business Policies***

GLOBALT believes that disclosure to shareholders of information on key company endeavors is important. However, Glass Lewis generally does not support resolutions that call for shareholder approval of policy statements for or against government programs that are subject to thorough review by the Federal Government and elected officials at the national level.

#### ***Foreign Government Business Policies***

GLOBALT believes that worldwide business policies are best left to management and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. We believe that board members can be held accountable for these issues when they face re-election.

#### ***Environmental Policies***

GLOBALT votes on all proposals referenced in the "Environmental Policies" section according to what we believe to be in the best economic interests of shareholders absent any specific instructions from our clients.

#### ***Drug Pricing***

GLOBALT votes case-by-case on proposals asking the company to implement price restraints on pharmaceutical products, taking into account:

- Whether the proposal focuses on a specific drug and region
- Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness
- The extent that reduced prices can be offset through the company's marketing budget without affecting R&D spending
- Whether the company already limits price increases of its products
- Whether the company already contributes life-saving pharmaceuticals to the needy and Third World countries
- The extent that peer companies implement price restraints

#### ***Genetically Modified Foods***

GLOBALT votes against proposals asking companies to voluntarily label genetically engineered (GE) ingredients in their products or alternatively to provide interim labeling and eventually eliminate GE ingredients due to the costs and feasibility of labeling and/or phasing out the use of GE ingredients.

GLOBALT votes case-by-case on proposals asking for a report on the feasibility of labeling products containing GE ingredients taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution
- The quality of the company's disclosure on GE product labeling and related voluntary initiatives and how this disclosure compares with peer company disclosure
- Company's current disclosure on the feasibility of GE product labeling, including information on the related costs
- Any voluntary labeling initiatives undertaken or considered by the company.

GLOBALT votes case-by-case on proposals asking for the preparation of a report on the financial, legal, and environmental impact of continued use of GE ingredients/seeds.

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution
- The quality of the company's disclosure on risks related to GE product use and how this disclosure compares with peer company disclosure

- The percentage of revenue derived from international operations, particularly in Europe, where GE products are more regulated and consumer backlash is more pronounced.

GLOBALT votes against proposals seeking a report on the health and environmental effects of genetically modified organisms (GMOs). Health studies of this sort are better undertaken by regulators and the scientific community. GLOBALT votes against proposals to completely phase out GE ingredients from the company's products or proposals asking for reports outlining the steps necessary to eliminate GE ingredients from the company's products. Such resolutions presuppose that there are proven health risks to GE ingredients (an issue better left to federal regulators) that outweigh the economic benefits derived from biotechnology.