In these specific areas, the SBA has taken a significantly more aggressive stance when compared to other large investment firms. The SBA's votes against the MRV stands at 23 percent compared to other institutions' prevalence to vote with management. On majority voting policies, support by other institutions ranged from 2.4 to 69.9 percent - with the SBA supporting fully 100 percent of these shareholder proposals. Similarly, the SBA fully supported 100 percent of the proposals to separate the CEO and Chairman roles on boards of directors, whereas other institutions' anemic support ranged from 0 to 54.2 percent.

> *"America likes to consider itself the cradle of democratic capitalism. But until shareholders are given a real vote over who runs their companies such self-congratulation is undeserved."*
>
> Edward Chancellor and Rob Cox of the Wall Street Journal, March 18, 2006

Fidelity Investments is a particular laggard among the institutional investor group, exhibiting the lowest support for all three of these highlighted governance issues. Another standout voting item were proposals to require a majority of independent directors on boards. Three of the four firms opposed every proposal to improve their investments' board independence, with Janus voting in favor of half of such ballot items.

The role and influence of proxy advisory firms on client voting has been heavily discussed among regulators, investors, and within the industry itself. To further address this question, the SBA analyzed 2006 proxy voting decisions in order to gauge the association between our voting record and the recommendations of the firms we currently use to research and provide proxy voting advice. The charts on page 18 detail the percentage deviation from the two primary research providers we use - Glass, Lewis & Co. and Institutional Shareholders Services (ISS). In general, the SBA's 2006 voting patterns were aligned with those of both research providers, although deviated significantly on executive compensation votes. Although in the aggregate the correlation between our research providers' advice and our actual vote is fairly strong, at the individual company level there may be significant differences due to our proxy voting guidelines and other investment policies.

MAJORITY VOTING

The election of directors is perhaps the most important shareowner responsibility, as these directors will serve as the agents of the shareholders. The structure of the modern corporation provides a separation of ownership and control of a firm so that the owners of a company need not be, and typically are not, its managers as well. This structure provides several benefits to shareholders, companies and the economy; most importantly it allows anyone to invest in companies without having to contribute the extensive time or expertise it takes to run a business. They can effortlessly contribute capital to many different organizations, allowing for diversification that lowers their investment risk.

> *"Shareholders must be mindful of the time and expense involved in finding highly qualified directors, the numerous substantive and independence requirements for directors under applicable regulatory and exchange requirements and the need for continuity and cohesiveness on a well functioning board."*
>
> *"The tremendous shareholder support and the leadership reflected by a growing number of companies in establishing a majority vote standard in their bylaws and certificates of incorporation argue for broad-based legislative reform."*
>
> SOURCE: MAJORITY VOTE WORK GROUP REPORT
> www.cii.org/majority/pdf/MajorityVoteWorkGroupReport.pdf

Companies benefit by the additional availability of capital at lower cost, allowing growth as necessary. However, this structure requires that owners contribute money through the ownership stake and leave the business decisions to management. This process can only be expected to function well if there is an entity that can provide oversight of management for the owners, and this is precisely the role of the board of directors. The board's prime responsibility is to select and subsequently monitor management for the dispersed and typically diluted body of shareholders. It is essential to shareholder value that the board of directors diligently perform its duties of management oversight. The shareholders' most important method for ensuring that the board is accountable to them is through annual elections of directors.

DIRECTORS NOT ACHIEVING MAJORITY SUPPORT IN 2006

COMPANY	DIRECTOR	MTG DATE	% FOR
Aeropostale, Inc	John D. Howard	06/14/2006	49%
Hologic, Inc.	Jay A. Stein	02/28/2006	49%
Innkeepers USA Trust	Thomas J. Crocker	05/03/2006	49%
TETRA Technologies, Inc.	Allen T. Mcinnes	05/02/2006	49%
Hologic, Inc.	Glenn P. Muir	02/28/2006	46%
Terex Corp.	J.C. Watts, Jr.	05/31/2006	39%
Synopsys, Inc.	A. Richard Newton	04/25/2006	37%
Tempur-Pedic Intl., Inc.	Robert B. Trussell, Jr.	04/28/2006	37%
Hologic, Inc.	Lawrence M. Levy	02/28/2006	36%

SOURCE: ISS GOVERNANCE ANALYTICS

PLURALITY vs. MAJORITY VOTING PROCEDURES

Plurality voting is a very common practice which has been used by U.S. companies since the late 1980s to determine the outcome of director elections. Under the plurality method, victory is assigned to the candidate with the most "For" votes. This method is effective when there are more candidates on the slate than available board seats, as the victor need not have a majority of votes to win (as in a political race with three or more candidates). This method becomes ineffective for director elections when candidates run unopposed (which happens over 99 percent of the time in board elections), as the candidate is ensured victory with as little as one vote. Moreover, it does not matter how many votes are "Withheld" from the candidate (the shareholders' equivalent for voting "Against" the director) because one "For" vote will ensure that candidate's victory. Because plurality voting hampers the ability of shareholders to dismiss their representatives in uncontested elections, the SBA only supports the application of a plurality voting standard in cases when there is more than one candidate running for a single board seat.

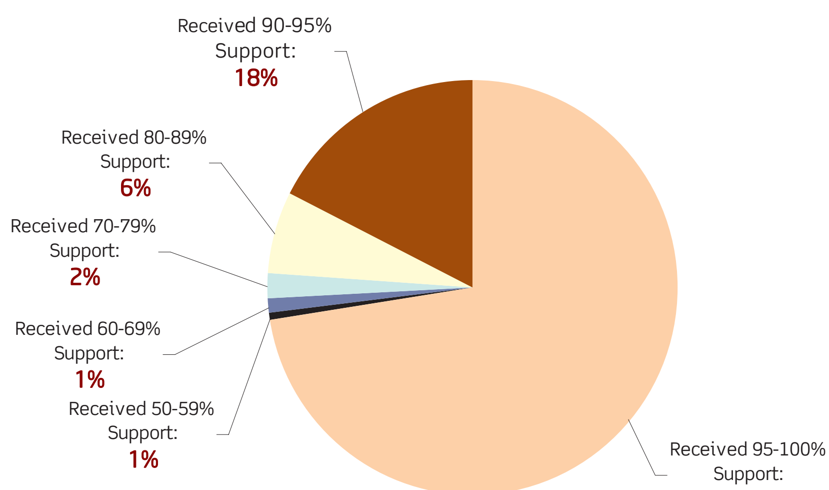
The SBA is a supporter of majority voting because it empowers shareholders with respect to the board of directors. This voting method simply establishes that the candidate may be not elected without support from a majority of shareholders. Shareholders are able to prevent the election of any director that they as a majority do not believe serves their interests. By nature, it is impervious to manipulation by "special interests." This voting method is intuitive and beneficial to shareholder interests.

DIRECTOR RESIGNATION POLICIES [“THE PFIZER POLICY”]

In June of 2005, Pfizer adopted a policy which stipulates that any director who receives a majority of withhold votes from shareholders must submit his or her resignation to the board. After the director's resignation is submitted, the board will then consider the resignation and make a recommendation. Pfizer subsequently amended their policy to state that if a director receives more 'withheld' votes than

[continued on page 22]

SUPPORT LEVELS FOR DIRECTORS IN 2006



SOURCE: ISS GOVERNANCE ANALYTICS

*ONLY 9 OF 10,527 DIRECTORS RECEIVED UNDER 50%

WHERE ARE THEY NOW?

Directors that received less than majority support in the last three years are overwhelmingly still serving on those boards. Of 37 directors with less than majority support, only 4 are no longer serving. Of those 4 directors, 2 served at companies where the CEO has 70%+ voting power; the other 2 retired within 18 months of the vote.

COMPANY	DIRECTOR	MEETING	%FOR	Still on board?	WHERE ARE THEY NOW?
Abraxis BioScience	Derek J. Brown	12/13/04	27	No	Elected but resigned 1/28/2005; retired as Co-COO; CEO owns 70% of stock
Actel Corp	Henry L. Perret	6/3/05	40	Yes	Affiliated outsider (previous employment as CFO)
Aeropostale	John D. Howard	6/14/06	49	Yes	Failed attendance standards
American International Group	M. Cohen	8/11/05	49.9	Yes	Comp (chair) and Nom/Gov Committees; 7 boards; In 2006, 26% withheld
AvalonBay Communities	Charles D. Peebler, Jr.	5/5/04	41	No	Retired 11/22/05; Failed attendance standards
Building Material Holding Corp	Richard G. Reiten	5/3/05	49.3	Yes	Affiliated outsider
Career Education Corp	**Robert E. Dowdell**	**5/20/05**	30	Yes	Remains as Board Chairman
Career Education Corp	**Dennis H. Chookaszian**	**5/20/05**	31	Yes	Remains as Lead Director
Career Education Corp	**Patrick K. Pesch**	**5/20/05**	31	Yes	Company CFO
Catapult Communications Corp	Henry P. Massey, Jr.	1/25/05	47	Yes	Company General Counsel; in 2006, 36% withheld votes
Federated Department Stores	**Joseph Neubauer**	**5/21/04**	39	Yes	Audit, Comp and Nom/Gov Committees
Federated Department Stores	**Joseph A. Pichler**	**5/21/04**	40	Yes	Comp and Nom/Gov Committees
Federated Department Stores	**Karl M. von der Heyden**	**5/21/04**	43	Yes	Audit Committee
Federated Department Stores	**Sara Levinson**	**5/21/04**	43	Yes	Comp and Nom/Gov Committees
Group 1 Automotive	Max P. Watson, Jr.	5/19/04	43	Yes	Affiliated outsider; Comp (chair) and Nom/Gov Committees
Health Net	Roger F. Greaves	5/12/05	48	Yes	Remains as board Chairman
Hologic	**Lawrence M. Levy**	**2/28/06**	36	Yes	Affiliated outsider by law firm service; Comp, Audit and Nom/Gov Committees
Hologic	**Glenn P. Muir**	**2/28/06**	46	Yes	Company CFO
Hologic	**Jay A. Stein**	**2/28/06**	49.6	Yes	Co-founder
Hyperion Solutions Corp	John Riccitiello	11/16/05	39	Yes	Comp Committee (chair)
Innkeepers USA Trust	Thomas J. Crocker	5/3/06	49	Yes	Nom/Gov Committee (chair); Failed attendance standards
Jack In the Box	**Alice B. Hayes**	**2/14/05**	44	Yes	Comp (chair) and Nom/Gov Committees; Failed attendance standards
Jack In the Box	**Edward W. Gibbons**	**2/14/05**	44	No	Retired by next annual meeting; Failed attendance standards
Kellwood Co	Jerry M. Hunter	6/2/05	49	Yes	Affiliated outsider by law firm service; Governance Committee (chair)
Kilroy Realty Corp	**John R. D'Eathe**	**5/18/04**	42	Yes	Audit, Comp and Nom/Gov Committees
Kilroy Realty Corp	**William P. Dickey**	**5/18/04**	42	Yes	Audit and Nom/Gov (chairman) Committees
Kilroy Realty Corp	**John B. Kilroy, Sr.**	**5/17/05**	47	Yes	Board Chairman; CEO's father; Affiliated thru his private company
Maximus	James R. Thompson, Jr.	3/18/04	41	Yes	Affiliated outsider by law firm service; Comp and Nom/Gov (chair) Committees
Pediatrix Medical Group	**Cesar L. Alvarez**	**5/20/04**	48	Yes	Affiliated outsider by law firm service; Board Chairman
Pediatrix Medical Group	**Michael B. Fernandez**	**5/20/04**	49	Yes	Comp and Nom/Gov Committees
Regency Centers Corp	Douglas S. Luke	5/3/05	43	Yes	Affiliated outsider; Comp Committee
Semtech Corp	John L. Piotrowski	6/16/05	42	Yes	Comp Committee; Failed attendance standards
StanCorp Financial Group	Wanda G. Henton	5/9/05	46	Yes	Nom/Gov Committee; Failed attendance standards
Synopsys	A. Richard Newton	4/25/06	37	Yes	Affiliated outsider; Failed attendance standards
Terex Corp	J.C. Watts, Jr.	5/31/06	39	Yes	Comp and Nom/Gov Committees; Failed attendance standards
TETRA Technologies	Allen T. Mcinnes	5/2/06	49	Yes	Affiliated outsider; Audit Committee
Value Line	H. Bernard, Jr.	10/10/05	2	No	Not re-elected; Insider; Audit Committee (chair); CEO controlled 86.5% vote

SOURCE: ISS VOTING ANALYTICS, CORPORATE LIBRARY'S BOARD ANALYST, GLASS LEWIS AND FACTSET

> *"A board member who fails to receive 50 percent of the proxy votes cast should not be allowed to stand. At a minimum, shareholders should have the right to stand up and object."*
> Jeff Diermeier, CFA, President of CFA Institute

'for' votes, the board will make the recommendation of whether or not to accept the resignation within 90 days following certification of the shareholder vote, after which it will disclose the decision via press release. This policy is limited to uncontested director elections only, and it has become a model for a number of companies.

According to the *Majority Vote Work Group Report*, the typical director resignation policy includes the following features: 1) a plurality vote standard; 2) a provision that any director receiving more withhold votes than votes cast for his or her election must tender his/her resignation for board consideration; 3) board consideration of the tendered resignation in a timely fashion, usually 90 days; 4) board disclosure of its decision whether or not to accept the tendered resignation(s), and 5) explanation of the rationale for the decision.

POST-ELECTION RESIGNATION POLICIES

["Intel-style Bylaw Provisions"]

Due to commonly-cited legal issues in their state of incorporation, many companies with a current majority voting standard have adopted post-election director resignation policies which outline a planned course of action in the event holdover directors or board vacancies result from an election. The post-election policies disclose legal options available to the board on how best to proceed while taking into account the interests of the corporation and its shareholders. There are a number of companies which have adopted both the majority voting standard and the post-election director resignation policies. These companies include, but are not limited to, Intel Corporation, Safeway, Inc., Freeport, McMoRan Copper & Gold, Inc., Pepco Holdings, Inc., UnumProvident Corporation, R.H. Donnelley Corporation, Dell, Inc., Texas Instruments Incorporated, Liberty Property Trust, and Ameren Corporation.

The SBA favors attempts to install true majority voting mechanisms, via bylaw/charter amendments, over director resignation policies for two reasons. Corporate policies adopted to implement weaker forms of majority voting can easily be changed at the will of the board; therefore, companies that make bylaw or charter amendments are demonstrating a higher level of commitment regarding elections to their shareholders and such structures are imbedded in their formal corporate governance structures. Secondly, it establishes the process on the front end in allowing shareholders to make the ultimate decision for director elections - not the board.

According to the Council of Institutional Investors, at least 212 companies have adopted new election policies, charter amendments or bylaws since the 2005 proxy season. Of these, 103 companies added majority vote standards in the form of charter amendments or bylaws, and 109 adopted resignation policies, therefore officially retaining a plurality rule. Going forward, the SBA plans to support any proposal that will help shareholders have a greater voice in director elections in a sensible manner. We believe that shareholders should be given the right to cast meaningful votes, and that they will use this power in a responsible manner. ⊙

> *"If pay is delivered regardless of performance, there is no incentive to deliver performance."*
> Paul Hodgson & Ric Marshall, "Pay for Failure", The Corporate Library