VALUES

Walden Asset Management ❁ Advancing sustainable business practices since 1975

December 2009 Volume 18, No. 2

In This Issue

Walden Asset Management

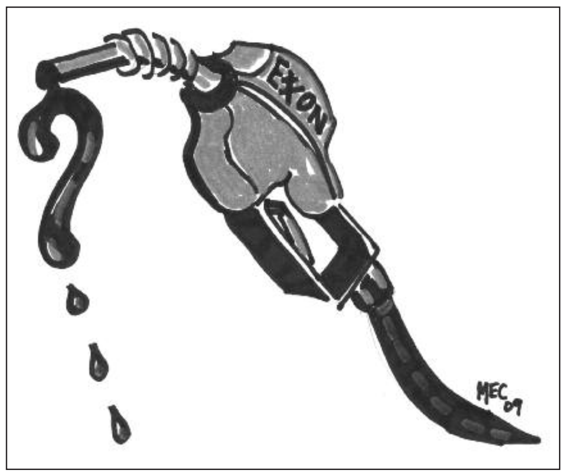
A Division of Boston Trust & Investment Management Company

One Beacon Street
Boston, MA 02108
Tel: 617.726.7250
Fax: 617.227.3664
www.waldenassetmgmt.com

ESG and Long-Term Business Success

A growing number of socially responsive and other investors are making a bold assertion: More often than not, companies enhance their *long term* profitability if they integrate responsible behavior into the fabric of their business practices.

The term *ESG investing* (for environmental, social, and governance) describes this belief. At Walden, where we have long strived to deliver strong investment performance with portfolios that reflect our clients' values, we share this philosophy. Long before the term became popular, our high quality security selection process integrated ESG concepts. That is true throughout Boston Trust, not just for those clients who ask us to reflect their institutional mission or individual values in their portfolios. Indeed, the overlap in holdings between clients who ask us to apply specific ESG guidelines and those who have asked us simply to achieve their financial objectives is large. A typical Walden client portfolio shares 85 percent or more of its investments with an unscreened Boston Trust portfolio. By comparison, apply the same ESG "screens" to the S&P 500 and as much as 40 percent of the investments would be ruled out.



What does ESG integration bring to the investment process? An awareness of a range of long-term financial considerations that are not often apparent when reading standard quarterly earnings reports. For example, we believe that ESG integration has contributed to decisions to avoid investments that entail fundamental but infrequently considered risks. Subprime lenders that made a business of making abusive loans to borrowers with poor credit constitute one recent example. Staying clear of firms with severe environmental liabilities like asbestos is another.

On the other hand, ESG has helped us identify companies with superior practices that lead to more efficient operations, heightened brand reputation, and even sensitivity to emerging themes like resource constraints or climate change. As large a company as PepsiCo has argued that its revenues have grown faster due to the diversity of its workforce. We believe that Praxair, an industrial gases firm, has benefitted from its customers' desire to boost operating efficiencies as well as comply with strict environmental regulations.

For some companies, ESG awareness has spurred profitable initiatives in new markets or technologies. This is often true among small and innovative companies (see *Cutting Edge Companies: Zoll Medical*, back page). Most important, ESG integration is a tool for identifying business models that, regardless of short-term swings in sentiment, are sustainable in the long run—the key aim of our high quality security selection process.

One critical caveat: Investment decisions at Walden are not one dimensional. As much as

continued on page 6

About Walden Asset Management

Walden Asset Management is the socially responsive investment division of Boston Trust & Investment Management Company. Walden began offering socially responsive investment services in 1975. We are among the largest and most experienced investment managers specializing in services for individual and institutional investors with social concerns.

Contributors:

Bill Apfel
Dan Apfel
Steve Benevento
Marcela Pinilla
Heidi Soumerai
Tim Smith
Heidi Vanni

Heidi Soumerai: *Editor*

Mark Cushing: *Cartoonist a.k.a. Director of Marketing*

Sandy Kendall: *Copy Editor*

Angela Mark: *Layout, Red Sun Press*

Separating Conjoined CEO-Chair Is Smart Governance

For years Walden has actively pressed for governance reforms to help protect investors and the public interest. Through initiatives supporting executive compensation accountability, increased board independence, and annual elections and majority votes for directors, Walden has balanced advocacy for social and environmental responsibility with active engagement encouraging good corporate governance.

Many investors are involved in dialogues with companies to encourage best practices in corporate governance. We are encouraged to see increasing responsiveness from business and a willingness to study governance reforms that enhance accountability and help build long-term shareowner value.

Tim Smith is Director of Socially Responsive Investing.

This year Walden has a new governance focus: promoting separation of the roles of board chairperson (Chair) and chief executive officer (CEO). We are holding conversations with a number of companies and sponsoring shareholder resolutions to promote this reform.

In the spring of 2009, the Millstein Center for Corporate Governance and Performance at Yale School of Management, working with a group of directors through its Chairmen's Forum, prepared an important paper that makes the case for having a chairperson who is not an executive officer. The paper, *Chairing the Board – The Case for Independent Leadership in Corporate North America* (http://millstein.som.yale.edu/), cites many benefits:

- Chairing and overseeing the Board is a time-intensive responsibility. A separate Chair frees up the CEO's time to focus on managing the company.
- An independent Chair mitigates conflict of interest, promotes oversight of risk, and is the logical next step in the development of an independent board.
- In the midst of economic crisis, naming an independent Chair is a proactive approach to help restore market trust.

The Chairmen's Forum at Yale also observes that global experience demonstrates the model to be a successful board structure. Instead of a dramatic shift in governance that would remove a current CEO from the chairperson's role, the Forum suggests phasing in the policy during the next CEO transition. Walden concurs with this approach and believes the Millstein-Chairmen's Forum paper deserves careful study by board governance committees.

Separation of the Chair and CEO roles is increasingly a reform that investors encourage. Fortunately, this board structure is also a growing trend within the business community. According to a June 12, 2009, *Business Week* article by Joseph McCafferty: "In 1998, 16 percent of the S&P 500 had a non-executive chairman (meaning someone who was not also the CEO). By 2008, that number had grown to 39 percent." McCafferty further points out that this governance structure is more common in Europe, remarking that in the United Kingdom 79 percent of large companies have independent Chairs. We should note, however, that the 39 percent figure reported in *Business Week* includes both independent outside Chairs and insiders, such as a former CEO serving as Chair.

In early September 2009, Walden sent letters to 34 large companies held in client portfolios that have combined the positions of Chair and CEO, making the case for separate roles and requesting an explanation for their governance structure. We are pleased that within two months 80 percent have responded, often with thoughtful explanations of their decision-making processes and their rationale for maintaining a combined CEO-Chair position. The primary argument these companies put forth is their belief that the presence of a lead director who plays an important independent role for the board alleviates concerns about a CEO who also functions as Chair. While there is respectful openness to study materials and discuss the issue with governance experts, there is no

continued on page 6

Responsible Endowments Coalition

partnerships at work

This column highlights selected groups and organizations working to promote social and economic justice, environmental leadership, or corporate accountability. Walden often supports the work of featured groups and partners in research and advocacy initiatives.

Picture the classic college campus and the scene is likely to be idyllic: brick buildings covered in ivy, students walking to class, and a feeling of serene isolation from the world at large and even the local community. The green grass, the dining hall food, and the pace of life are all different than they are outside. Inside life appears good for everyone; it may even feel socially just and responsible, with the university the benevolent, doting parent. This is what students refer to as the college "bubble". But, although many people feel that sense of campus insularity, colleges and universities are by no means isolated from the real world. In fact, they are integrated in the world in all of their operations, but especially through finances: They collect tuition, pay salaries, and invest their money.

Before last year's economic collapse, college and university endowments represented over $400 billion in assets, second only to foundations as a nonprofit private pool of capital. Many schools amassed so much money tax-free, in fact, that the Senate Finance Committee began reconsidering their status as tax-exempt organizations. But while schools are created for a positive social good—to educate young people—and universities are at the forefront of green practices, university endowments often work in opposition to their institution's values, investing without regard for the social and environmental impacts of their investments.

Luckily, at many schools around the country, students are working to change the way endowments are invested to ensure that the investments are in line with the school's values. **You can support these efforts too** by insisting that your *alma mater* take its mission into account in its investment decisions.

Already, 37 schools in the United States have set up Advisory Committees on Responsible Investment (ACRI) made up of students, administrators and other community members, which provide guidance on proxy voting to their trustees. Some colleges and universities are engaging in corporate dialogue and filing shareholder resolutions, and some have made investments in community development banks and credit unions.

At Bard College, a beautiful campus on the Hudson River in Annandale, N.Y., students on the college's ACRI decided they wanted to make a difference on an issue important to them and the campus: food. Bard owned McDonald's stock, and working with the Investor Environmental Health Network and the AFL-CIO, the College filed a resolution asking for changes in pesticide use in the McDonald's supply chain. McDonald's first tried to stop the resolution, but later sent representatives to Bard and negotiated a settlement. McDonald's agreed to implement a comprehensive plan to change its potato buying policy. Students at Bard were able to negotiate with one of the world's biggest corporations, and because McDonald's is the largest buyer of potatoes in the world, the change they negotiated will have a huge impact.

The Responsible Endowments Coalition (REC) supports students, like those at Bard College, and others involved with colleges and universities across the country who are advocating for and implementing responsible investment policies and practices at their campuses. REC also advocates nationally for responsible investment at colleges and universities. To help your *alma mater*—or your children's—change its policies, write a letter to the university president and include it with your next donation. Give REC a call, or for a sample letter visit REC's website at www.endowmentethics.org and click "get involved."

–D. Apfel

For more information on REC, visit www.endowmentethics.org.

Dan Apfel is Executive Director of the Responsible Endowments Coalition (REC) and the son of Walden's Bill Apfel, whose article is the cover feature. Each Apfel claims the other does not necessarily represent his views.

RESEARCH & ADVOCACY IN ACTION

Heidi Soumerai is Director of ESG Research.

Marcela Pinilla is an ESG Research Analyst.

Many, if not most, of Walden's interactions with companies to strengthen environmental, social, and governance (ESG) policies and practices span several years. Corporate change is often a slow and incremental process. Fortunately our investment approach, which favors long-term investment in high-quality companies, is compatible with the sustained engagement we emphasize. Still, emerging issues, shifting priorities, and new portfolio companies ensure that Walden's work is never static.

What's New?

In recent months we have pursued several new opportunities to help advance sustainable business practices.

During much of the 2008-2009 economic and financial market upheaval, Walden avoided investment in the banking industry. With increased confidence that the worst is behind us, we are once again establishing a foothold in banks. Working with CANICCOR, an expert consultant on financial institutions and corporate responsibility, we are reaching out to **J.P. Morgan** and **SunTrust** on their process and progress in modifying loans to help homeowners avoid foreclosure. Rarely do we see an issue where the human and financial benefits of a vigorous and successful corporate response go so hand-in-hand.

We launched an initiative encouraging portfolio companies to consider separating the roles of CEO and Chair (See "Separating Conjoined CEO-Chair Is Smart Governance," page 2). Generally considered a best practice by corporate governance experts, a separate and fully independent board chair helps minimize perceived or real conflicts of interest in management oversight while also freeing up valuable CEO time. More than 80 percent of the 35 companies we wrote to on this matter have responded, including **Staples,** whose representatives came to our offices to explore the issue together. Few, however, are embracing this governance reform.

Along with Pax World, Walden is leading a coalition of investment firms that collectively wrote to more than 100 small companies in the industrial, energy, and utility sectors to encourage greater ESG disclosure. We are taking the lead with more than 20 of those companies, three of which represent new company dialogues: **Carbo Ceramics**, **Genessee & Wyoming,** and **Wabtec**. We also filed a shareholder resolution seeking ESG disclosure at **Baldor Electric,** which was withdrawn upon the company's commitment to prepare a report.

A Walden representative sits on a newly formed **PepsiCo** stakeholder committee organized by Ceres, an organization that promotes continuous improvement in ESG performance and reporting, after the company became a signatory to Ceres last spring. At the first meeting in November, issue experts, investors, and more than a dozen senior representatives of PepsiCo addressed a broad range of topics including nutrition, sustainable agriculture, water conservation, greenhouse gas mitigation, supply chain standards, and extended producer responsibility.

Fall Resolution Results and a Look Ahead

The "Summary of Walden's 2009 Shareholder Resolutions" in our summer edition of *Values* identified four resolutions filed by Walden with annual meetings pending in the fall. Three requested a shareholder advisory vote to ratify the compensation of executive officers, known as Say-on-Pay, as a means to enhance director accountability on senior executive pay. **Microsoft** agreed to give shareholders the advisory vote in November, prompting the withdrawal of the resolution. **Procter & Gamble** and **General Mills** both went to a vote, garnering 46 percent and 51 percent support, respectively, demonstrating broad-based investor interest. A Boston Common Asset Management–led initiative asking **Cisco Systems** to assess steps it could reasonably take to avoid the likelihood of complicity in violations of human rights in countries with poor records, such as China, received support from 34 percent of voting shareholders.

We have also begun filing resolutions for the 2010 season. Companies receiving Say-on-Pay proposals sponsored by Walden and clients include **Colgate-Palmolive, The Walt Disney Company, General Electric, IBM,** and **Johnson & Johnson**. Resolutions requesting ESG reporting were filed at **Baldor Electric** (subsequently withdrawn after reaching an agreement), **C.R. Bard, Credo Petroleum, Gentex, Layne Christensen, St. Jude Medical,** and **Time Warner Cable** (also withdrawn after reaching an agreement). Single company resolutions were filed on political spending disclosure (**AT&T**), container beverage recovery and recycling

(**PepsiCo**), separation of the CEO and Chair positions (**State Street**), and board diversity (**Watts Water Technologies**). A more complete picture of Walden's 2010 resolutions will be available at the end of the year.

Company News

Significant developments at companies held in many client portfolios include:

BP is challenging a record $87.4 million fine brought by the Occupational Safety and Health Administration (OSHA) for failing to address adequately the hazardous work environment that led to the fatal 2005 explosion at its Texas refinery.

Google, in partnership with an endangered Amazon tribe, is using Google Earth technology to track illegal mining and logging that threatens the group's self-sufficiency.

Intel announced it will cease to hold in-person shareholder meetings, moving to a virtual-only format in 2010. While applauding the expanded access that internet meetings provide, the Council of Institutional Investors and many others advocate maintaining a no frills physical meeting as well to safeguard shareholders' right to raise issues of concern directly with managements and boards. Separately, Intel pioneered a comprehensive 2008-2009 corporate social responsibility report on Intel China using the Global Reporting Initiative's sustainable development report guidelines.

PepsiCo recognized formally that access to water is a human right, a groundbreaking position as companies increasingly address water scarcity. Consistent with World Health Organization and United Nations principles, PepsiCo's statement on water addresses safety, sufficiency, acceptability, physical accessibility and affordability.

Staples launched Carbon Canopy, an initiative attempting to create market incentives for private forest owners to embrace more sustainable forest management practices and increase carbon sequestration.

SYSCO, the leading U.S. food service distributor, announced a partnership with World Wildlife Fund to develop a strategy for sourcing seafood in a sustainable manner. Their work together will focus initially on SYSCO's top 10 seafood species.

–H. Soumerai

Public Policy and the Corporate Voice

Walden increasingly pursues public policy advocacy to help achieve environmental, social, and governance (ESG) goals.

On the topic of climate change, the fierce opposition of the U.S. Chamber of Commerce to proposed legislation has produced a firestorm of activity. Prompted by statements from the Chamber that range from obstructionist to bizarre, Walden and 43 other investors directed a letter to member companies that publicly support climate legislation. The letter asked them to seriously evaluate their alliance to a group whose leader, Tom Donohue, said, "Warmer temperatures could help by reducing deaths related to cold weather." (Not to be outdone, the Chamber's senior vice president for environment, technology, and regulatory affairs called for a climate change hearing that would be "the Scopes 'Monkey Trial' of the 21st century.") The recent exodus of companies such as **Apple, Exelon,** and **PG&E,** and public statements asserting the views of the Chamber do not represent their own, has continued to fuel the resolve of many companies to get serious about mitigating the effects of climate change. As the debate expands, leaders such as **Nike** have demonstrated their resolve by resigning from the Chamber's Board.

A similarly short-sighted perspective from the Chamber on comprehensive healthcare reform prompted Walden to join 60 other members of the Interfaith Center on Corporate Responsibility (ICCR) to send letters to companies. The Chamber has proclaimed that the current administration seeks to pass "government-run healthcare" into law. We believe this to be a grave mischaracterization of what bringing affordable healthcare to all citizens is about. The letters were directed to 36 companies that have supported ICCR's principles of healthcare reform, asking them if the Chamber "speaks for them," and inviting them to express publicly their views on healthcare.

On the equal employment opportunity front, a Walden-led letter campaign to 75 leaders on inclusive workplace practices has been timely and well-received. The letters entreated companies to support the Employee Non-Discrimination Act (ENDA) by joining the Business Coalition for Workplace Fairness. ENDA, currently making its way through the U.S. Congress, explicitly prohibits workplace discrimination based on sexual orientation and gender identity. Companies such as **Best Buy, Dell, Clorox, IBM,** and **Motorola** have signed up with the Coalition.

Investors should rejoice over the reversal of a Securities and Exchange Commission (SEC) policy that had encumbered the shareholder resolution process for many years. Walden was among a dozen investor proponents invited to a September meeting called by the SEC's Division of Corporation Finance to discuss the agency's role in allowing companies to omit shareholder proposals from ballots at annual shareholder meetings. The SEC was receptive to comments and finally ruled that resolutions may now include explicit requests for companies to analyze their risk associated with climate change and the environment, among other major ESG issues.

From the boardroom to the SEC, Walden is a persistent voice for sound and robust public policies. Through increased visibility of corporate and governmental leaders, we hope to encourage public awareness and understanding of climate change, healthcare, and employment policies that are fundamental to economic and social prosperity.

–M. Pinilla

ESG and Long-Term Business Success *continued from page 1*

Bill Apfel, EVP, is a Senior Portfolio Manager and Director of Securities Research.

we admire management that strives for excellence in ESG matters, this alone does not assure superior financial or investments results. The converse is also true. Indeed, sometimes businesses with poor records in these areas, or even those with environmentally or socially destructive business models can prosper—certainly in the short run and sometimes in the long run as well if regulatory or market mechanisms reward their practices. Our job as investment professionals is to weigh these issues in the larger context, considering the benefits of good ESG practices along with the multitude of other considerations that will affect the investment outcome.

This is not an easy task, but we think it is an essential one. ExxonMobil Corporation, which has typically been excluded from the portfolios of social and environmental investors, provides an example of the challenges we face in striking the appropriate balance. Like every producer of carbon fuels, Exxon is a significant contributor to climate change. And Exxon is a giant—the world's largest, non-state-owned oil company—so there can be no doubt that Exxon's fortunes will be affected by policies intended to limit the human and environmental consequences of climate change. This is just the sort of discontinuous risk thoughtful ESG investors must consider.

Exxon might produce a steady stream of rising earnings reports in a world of scarce fuel, but what is the company really worth if climate change forces a comprehensive set of global policies that set us on the road to sharply reducing the use of carbon fuels? Nonetheless, we believe sensibly diversified portfolios should include large energy companies given the likelihood that they will continue to prosper for many years in a world of scarce resources.

But should we exclude Exxon in favor of other large integrated energy producers? Striking the ESG balance in this case is even more difficult. Exxon, like most companies, offers a mixed picture. Here are some of our concerns: We view Exxon as a laggard with regard to its corporate nondiscrimination policies. Even while the company claims not to discriminate, we think more inclusive policies add to the vibrancy of a workplace, providing room for new ideas and varying perspectives. Similarly, we have been dismayed by what we consider Exxon's past years of obstructive contribution to the discussion of climate change. We have no complaint about an open debate regarding the legitimate issues surrounding sensible emissions policy, but we worry that an inflexible ideological position on the issue will leave the company behind as other industry participants seek creative responses.

Despite these concerns, we cannot argue that Exxon fails the test of business model sustainability. Its range of energy industry resources is unrivalled among public companies. Its financial strength far outdistances those of its competitors. In these uncertain times, Exxon's rock-solid balance sheet will give it the flexibility to prosper when its competitors falter. It also will give Exxon the opportunity to enter the field of alternative energy if its perspective on these issues changes. Balancing our concerns about some of Exxon's pronouncements on climate change, we recognize Exxon's industry-leading operational efficiency, good safety record, and comparatively favorable performance, according to Walden's analysis of U.S. government records on toxic releases. To a large degree, Exxon's self-inflicted image as a corporate laggard has masked its robust operating culture.

In this most difficult of examples, then, where do we draw the line? On behalf of those clients who do not ask us to incorporate comprehensive ESG screens on their investment selections, we are Exxon holders. All things considered, we judge Exxon to have a strong and sustainable business model. But some clients assess the balance differently. In many cases, that view is the result of a straightforward ethical requirement: Don't invest my funds in companies whose practices I find abhorrent. Other clients believe the ESG investment risks outweigh other investment advantages. We respect both perspectives. For those clients we believe we can find appropriate and profitable alternatives. Fortunately, most ESG decisions are not as difficult. More often than not, we find that our ESG approach makes making good investment decisions that much easier.

–B. Apfel

Separating Conjoined CEO-Chair Is Smart Governance *continued from page 2*

interest thus far in shifting from the present model. Significant movement on this matter is likely to be an uphill climb.

Investors are sponsoring resolutions with several dozen companies this year pressing for this reform, including a filing by Walden with State Street. In 2008 the average vote for this resolution was approximately 37 percent, indicating strong shareowner support for strengthening board independence by separating the Chair and CEO.

–T. Smith

ROTH IRA CONVERSIONS

Roth IRA conversions have been a hot topic recently. No surprise considering that as of January 1, 2010, the $100,000 income limit on conversions will be removed. While this means anyone will be able to convert, it doesn't answer the question whether or not a conversion is best for *you*.

Converting to a Roth IRA is a taxable event. Even though the market has come roaring back since bottoming out on March 9, 2009, it is still well below its peak of October 2007. And lower account values means less tax due. For conversions that occur in 2010 only, the IRS allows you to spread the tax due over the following two years (2011 and 2012). The amount taxed is treated as ordinary income, however, and 2011 coincides with the expiration of previous legislation that had temporarily reduced tax rates. So, depending on your income, you may end up paying more taxes by opting for this benefit.

The Basic Rules

When deciding to convert there are some basic rules. First, if you don't have the funds available outside of the IRA to pay the tax that will be due, you probably should not convert. If you are under age 59½ and use the IRA funds to pay the tax, you will be subject to an early withdrawal penalty.

The ideal candidate for a conversion is someone who expects to be in a higher tax bracket when distributions will be required from the traditional IRA, does not need money from the IRA and would actually prefer to avoid future required minimum distributions (RMDs), and is looking for an estate planning tool to pass funds to an heir that will not be subject to income tax.

Consider Partial Conversion

But financial planning is never this straightforward. For many people a partial conversion may be optimal. Under current law the ability for anyone to convert, fully or partially, will continue after 2010. This allows you to convert an amount up to the level that will bring you to the top of your marginal tax rate. This also gives you the ability to lower the eventual RMDs from the traditional IRA at age 70½, thereby avoiding being pushed into a higher tax bracket.

Shifting Income Tax Rates

The most important variable mentioned above is the potential change in income tax rates. Yet future tax rates are hardly a certainty. You may be better off applying a technique that we are all familiar with when it comes to our investment portfolios: diversification. But in this case it is <u>diversification of taxability</u>. The best way to hedge against the uncertainty of future tax rates is to save for retirement with taxable, tax-deferred, *and* tax-exempt assets. Partial conversions lend themselves to this concept as well.

Roth IRAs may be used as an estate planning tool for larger estates. Avoiding RMDs at 70½ and beyond can result in a significant increase of wealth transferred to heirs. While the beneficiaries of a Roth IRA are subject to RMDs, the amounts distributed are income-tax free. Currently, estates subject to the estate tax (those over $3.5 million) pay a flat rate of 45 percent. It seems likely, based on the introduction of recent legislation, that a temporary extension of current rates and exemptions will be put into place for 2010. Conversions done now will be subject to income tax, which, even for those in the highest income bracket, is lower than the current estate tax.

Additionally, the payment of the taxes due on a conversion, although from a source other than the IRA, will still lower an estate's overall value subject to estate tax. (Clients with charitable goals should be aware that other considerations apply.)

Roth IRA Contributions

The elimination of the conversion limit does not mean that anyone can *contribute* to a Roth IRA. The contribution rules still apply. Anyone *can* currently contribute to a non-deductible IRA and execute conversions each year, however. Finally, Walden clients should be aware of the <u>*pro-rata* rule</u> that applies to conversions from a non-deductible IRA. It is assumed that the conversion amount is coming *pro-rata* from all IRAs (deductible and non-deductible). You are not able to pick and choose which funds are converted, so beware as this has a significant impact on how much tax will be due upon converting.

We can not overstate the importance of carefully reviewing your situation with a tax advisor before making any decisions regarding a Roth IRA conversion. Numerous factors come into play when analyzing the best course of action, but the benefits may be compelling.

– S. Benevento, CFP®

We strongly recommend consulting with your tax advisor prior to making any decisions related to your tax or estate plans.

Stephen Benevento is an Administrative Officer.

Walden Asset Management
Advancing sustainable business practices since 1975
One Beacon Street • Boston, MA 02108

First Class Mail
U.S. Postage Paid
Boston, MA
Permit No. 50816

Printed on 100% post-consumer recycled paper with vegetable ink.

VALUES

cutting edge companies

ZOLL MEDICAL

This column highlights companies in the business of providing solutions to social and environmental challenges. Featured companies are typically held in the Small Cap Innovations portfolios offered to Walden clients.

For victims of sudden cardiac arrest (SCA), **Zoll Medical**'s products could mean the difference between life and death. Founded in 1980 and headquartered in Chelmsford, Mass., Zoll makes noninvasive cardiac defibrillators, pacing devices, and circulatory support devices used in emergency situations to resuscitate hearts that have stopped beating. Hospitals, paramedics, and other emergency medical personnel are the primary users of Zoll's products.

Defibrillators deliver electrical current to the heart to stop fibrillation (i.e., arrhythmia) and permit the return of coordinated cardiac contractions. The U.S. Centers for Disease Control and Prevention estimates that 460,000 people die from SCA annually in the United States. SCA strikes without warning and can kill within minutes. Most victims have no prior symptoms. When SCA strikes, time is the most critical element for survival. For every minute of delay in the restoration of effective cardiac function provided by defibrillation, survival decreases by as much as 10 percent. According to the American Heart Association, more than 95 percent of SCA victims in the United States die, in many cases because life-saving defibrillators arrive too late, if at all. If CPR and defibrillation are provided within the first three minutes after collapse, survival rates can reach as high as 75 percent.

Zoll's best-selling product to date, the *M Series* defibrillator, is designed for trained healthcare professionals. This device incorporates features that record and transmit data, monitor the heart's electrical activity, and measure oxygen saturation in the blood. It has been selected as the standard defibrillation device by institutions such as Brigham and Women's Hospital, the Mayo Clinic, the Johns Hopkins Hospitals, and the U.S. Army. Zoll Medical also makes portable automated external defibrillators (AEDs) that non-professionals can use to analyze a patient's condition and shock the heart back into rhythm if necessary. Zoll Medical is the only company that offers AEDs with real-time CPR feedback. This feedback assists rescuers by analyzing the pace and compression pressure being delivered, and offering verbal cues. For example, the machine's computerized speaker might say, "Increase compression speed," or "Good compressions," thereby improving the rescuer's efforts.

Heidi Vanni is a Portfolio Manager and Securities Analyst.

Zoll Medical has recently introduced new products that build on its expertise in resuscitation. For example, recognizing that the back of a speeding ambulance can be a difficult place to administer advanced life support, Zoll Medical created the AutoPulse. The AutoPulse is a non-invasive, cardiac support pump that wraps around the victim's chest and automatically administers chest compressions via a hands-free chest compression device. This reduces the risk of injury to the rescuers and allows them to focus on other threats to the victim's body. Most importantly, the AutoPulse allows for more consistent chest compressions during CPR. The AutoPulse can circulate nearly 100 percent of normal blood flow; manual compressions circulate approximately 30 percent of normal blood flow.

-H. Vanni