

MD&A *Checklist*



BDO Seidman, LLP
Accountants and Consultants



MD&A Checklist¹

Company _____ Period _____

Introduction

As auditors, our responsibility for management's discussion and analysis of financial condition and results of operations ("MD&A") is to consider whether any statements therein, or the manner of their presentation, are:

- Materially inconsistent with the financial statements, or
- Materially misstated based on our knowledge of the company. (Such a misstatement could result either from a statement that is inconsistent with our knowledge, or because the omission of a disclosure could, based on our knowledge of the client, render MD&A misleading.)

However, while MD&A is the company's responsibility, we can and should assist clients to:

- Identify historical and forward-looking items that should be discussed in MD&A;
- Identify the reasons for material changes in financial statement items;
- Determine that the discussions in MD&A are consistent with the financial statements and with other narrative portions of the filing; and
- Evaluate the readability and clarity of MD&A.

This checklist is designed to help identify matters that should be covered in MD&A. Its use is strongly encouraged, although not required. However, it is important to *tailor* it to the particular circumstances of each company and the industry in which it operates. *The checklist is not intended to be all-inclusive.* Using the checklist is not a substitute for understanding and applying the requirements of Item 303 of Regulation S-K or Item 303 of Regulation S-B² and the interpretive guidance the SEC has provided. Such guidance may be found in Financial Reporting Release Nos. 36,³ 60,⁴ 61,⁵ and 72,⁶ and applicable Staff Accounting Bulletins. In addition, Commission comments in more recent rulemaking releases⁷ and speeches provide additional guidance and insight. Users of this checklist should also consider the need to consult with knowledgeable professionals about SEC disclosure requirements. **If this checklist is**

¹ This checklist has been updated to reflect all SEC rules and releases issued as of January 31, 2005. Users of this checklist should consider whether SEC literature issued after that date affects a company's MD&A requirements.

² Small Business Issuers that prepare disclosures in accordance with Regulation S-B are only required to present an MD&A if the company has reported revenues from operations in each of the two latest fiscal years or, if interim financial information is included in the filing, the latest fiscal year and any subsequent interim period. A company not reporting such revenues must, in lieu of MD&A, include a discussion of its plan of operations for the next twelve months that focuses on how the company will meet its working capital requirements over that period. (Item 303(a) of Regulation S-B.)

³ Codification of Financial Reporting Releases, Section 501.

⁴ Release No. 33-8040, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*.

⁵ Release No. 33-8056, *Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations*.

⁶ Release No. 33-8350, *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*.

⁷ See, Release No. 33-8182, *Final Rule: Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations*, and Release No. 33-8098, *Proposed Rule: Disclosure in Management's Discussion and Analysis about the Application of Critical Accounting Policies*

provided to the client to complete, the client should be informed that this form should not represent the client's primary internal control over the quality and sufficiency of MD&A.

General Requirements for MD&A

Overview

The Commission has stated the following regarding the purpose, language and format of MD&A:

The Commission has long recognized that there is a need for a narrative explanation of financial statements and accompanying footnotes and has developed MD&A over the years to fulfill this need. The disclosure in MD&A is of paramount importance in increasing the transparency of a company's financial performance and providing investors with the disclosure necessary to evaluate a company and to make informed investment decisions. After the financial statements themselves, MD&A is generally the most important portion of a company's disclosure. This is so because MD&A is designed to achieve three interrelated purposes:

- To provide a narrative explanation of a company's financial statements that enables investors to see the company through the eyes of management;
- To improve overall financial disclosure and provide the context within which financial statements should be analyzed; and
- To provide information about the quality, and potential variability, of a company's earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance.⁸

MD&A should be a discussion and analysis of a company's business as seen through the eyes of those who manage that business. Management has a unique perspective on its business that only it can present. As such, MD&A should not be a recitation of financial statements in narrative form or an otherwise uninformative series of technical responses to MD&A requirements, neither of which provides this important management perspective.⁹

The MD&A discussion should be presented in language and a format that is clear, concise and understandable.... The information should not be presented in such a manner that only an accountant or financial analyst or an expert on a particular industry would be able to fully understand it. Boilerplate disclosures that do not specifically address the registrant's particular circumstances and operations will not satisfy the MD&A requirements. Disclosure that can easily be transferred from year to year, or from company to company, with no change will neither inform investors adequately nor reflect the independent thinking that must precede the assessment by management that is intended for MD&A disclosure.¹⁰

In deciding on the content of MD&A, companies should focus on material information and eliminate immaterial information that does not promote understanding of companies' financial condition, liquidity and capital resources, changes in financial condition and results of operations (both in the context of profit and loss and cash flows.)¹¹

⁸ Release No.33-8182, Final Rule: Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations.

⁹ Release No. 33-8350, *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*.

¹⁰ Release No. 33-8182, Final Rule: *Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations*.

¹¹ Release No. 33-8350, *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Annual Periods¹²

MD&A should address the three years¹³ covered by the consolidated financial statements, using year-to-year comparisons or any other useful format to enhance the reader's understanding of the company's historical results of operations, its financial condition and its future prospects. The discussion should focus on the material changes in year-to-year results of operations and financial condition, and on those presently known trends, demands, commitments, events, or uncertainties that are reasonably likely to have a material impact on future results of operations or financial condition, or that are reasonably likely to cause the historical financial statements not to be necessarily indicative of future operating results or financial condition. In interpreting the "reasonably likely" disclosure threshold, the SEC has stated that "reasonably likely" is a lower threshold than "more likely than not" but a higher threshold than remote.¹⁴ In applying the "reasonably likely" standard, the SEC puts the burden of proof on the company. To eliminate the need for discussion or disclosure, a company must be able to conclude that (1) the trend, demand, commitment, event, or uncertainty is not reasonably likely to materialize, or (2) assuming the trend, demand, commitment, event, or uncertainty does materialize, it is not reasonably likely to have a material effect on financial condition or results of operations.

Interim Periods

The information content for MD&A for an interim period should be similar to that for an annual period. Thus, this checklist is applicable to interim as well as annual period MD&A. The principal differences between interim and annual period MD&As are (1) seasonal factors that materially affect the interim financial statements need to be discussed, (2) the impact of inflation does not need to be addressed, and (3) the manner of presentation in an interim period MD&A. A company can prepare an interim period MD&A by presuming the reader has read the MD&A for the latest fiscal year and presenting the information necessary to "update" that discussion. But the company cannot assume the reader has read the prior interim MD&A. An interim period MD&A should address the same items that are required to be discussed in an annual period MD&A. However, the discussion should be complementary to that included in the most recent annual period. In cases where adequate disclosure is contained in the annual MD&A, further discussion is not required. The interim MD&A should update the discussion of known trends, demands, commitments, events, and uncertainties that are reasonably likely to have a material impact on future results of operations or financial condition. It should also identify and provide information about new known trends, etc. that were not covered in the most recent annual period MD&A. When assessing disclosures to be included in the interim MD&A, companies should keep in mind that there may be different quantitative and qualitative factors to consider for interim periods compared to annual periods.

MD&A for interim periods should discuss any material changes in the results of operations between the current year-to-date period and the corresponding period of the prior year. Similar comparative discussions for the most recent fiscal quarter and the most recent twelve-month period should be provided if financial statements for those periods are included. Additionally, an interim period MD&A should discuss any material changes in liquidity and capital resources from the end of the preceding fiscal year to the date of the interim balance sheet. It should also discuss changes since the last fiscal year-end in the application of critical accounting policies and estimates and the use of off-balance sheet arrangements. If interim financial statements are presented together with annual financial statements, the interim and annual discussions may be combined.

¹² This form has been prepared for registrants other than small business issuers, as defined in Regulation S-B. Although it should be completed in connection with SB filings that require Item 303 of Regulation S-B, it should be noted certain disclosures are not required for SB filers, such as the table of contractual obligations or a three-year MD&A discussion. Therefore, the user should be familiar with the provisions of Regulation S-B and tailor its use accordingly.

¹³ Where necessary for a relevant discussion of trends, it also may be necessary to refer to and discuss the information and trends appearing in the five-year summary of selected financial data.

¹⁴ See Release No. 33-8182, Final Rule: *Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations*, particularly footnote 28.

Organization of an Annual MD&A and this Checklist

Current SEC rules and other guidance call for MD&A to contain the sections discussed below. The rules do not specify any order in which the sections must be presented. The Commission has indicated that companies should consider organizing MD&A to present the most important information first, even if it is non-financial.

1. Application of Critical Accounting Policies – In December 2001, the SEC provided guidance regarding the need to disclose critical accounting policies in Financial Reporting Release No. 60 (Release No. 33-8040), *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*. To elicit improved disclosure in this area, in April 2002, the SEC proposed new rules which are contained in Release No. 33-8098, Proposed Rule: *Disclosure in Management’s Discussion and Analysis about the Application of Critical Accounting Policies*. As of the date this checklist was updated, final rules have not been issued. Nevertheless, the SEC believes registrants should also consider the proposed rule when preparing their disclosures.

The proposed rule would mandate presenting this information in a separate section of MD&A. Because the discussion of critical accounting policies and estimates communicates information about the uncertainties and judgments inherent in the financial reporting process, it provides context that aids a reader in understanding the results of operations. For that reason, many companies present this information in a separate section of the MD&A immediately preceding or following the discussion of the results of operations. These disclosures are covered in a separate section of this checklist.

2. Results of Operations – This section is required by Item 303(a)(3) of Regulation S-K and is covered in a separate section of this checklist.
3. Liquidity – This section is required by Item 303(a)(1) of Regulation S-K. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. They are covered together in one section of this checklist.
4. Capital Resources – This section is required by Item 303(a)(2) of Regulation S-K. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. They are covered together in one section of this checklist.
5. Off-Balance Sheet Arrangements – This section is required by Item 303(a)(4) of Regulation S-K and is covered in a separate section of this checklist.
6. Contractual Obligations – This section is required by Item 303(a)(5) of Regulation S-K and is covered in a separate section of this checklist.
7. Certain Contracts and Related Party Transactions – In January 2002, the SEC provided guidance on disclosures relating to:
 - Non-exchange traded contracts accounted for at fair value
 - Transactions with related parties and other parties with non-independent relationships
 - Liquidity
 - Off-balance sheet arrangements
 - Contractual obligations and commercial commitments

The guidance regarding off-balance sheet arrangements and contractual obligations and commercial commitments was superseded in 2003 with the issuance of a final rule on these matters. The remaining guidance is still in effect and is reflected in applicable sections of this checklist.

8. Special Topics with Broad Effects - Certain broad topics may affect the discussions of both operating results and liquidity and capital resources and have been of special interest to investors in recent years. Although the discussion of these topics should be presented in the applicable sections of MD&A, these topics are covered in a separate section of this checklist.

9. Foreign Private Issuers - At the end of the checklist is a listing of matters that should be considered in preparing the MD&A of a foreign private issuer.

SUMMARY OF THE MD&A SECTION

Although not required by the rules, the Commission has stated, "Many companies' MD&A could benefit from adding an introductory section or overview that would facilitate a reader's understanding. As with all disclosure, what companies would appropriately include in an introduction or overview will depend on the circumstances of the particular company. As a general matter, an introduction or overview should include the most important matters on which a company's executive focus in evaluating financial condition and operating performance and provide the context for the discussion and analysis of the financial statements."¹⁵

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
1. Has the company considered presenting an executive summary of the MD&A section to establish the context for the company's operations and set the stage for MD&A as a whole?	_____	_____	_____
2. Does any summary of the MD&A section presented cover the significant matters in a balanced and appropriate manner?	_____	_____	_____
3. Does the summary address relevant economic or industry factors?	_____	_____	_____
4. Does the summary discuss how the company earns revenues and generates cash?	_____	_____	_____
5. As a lead-in to the discussion, has the company considered presenting a table of relevant financial and/or other information?	_____	_____	_____

¹⁵ See Release No. 33-8350, Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

As discussed in FRR 60, Release No. 33-8098, and Release No. 33-8350, companies should provide disclosure in MD&A that allows investors to understand the manner and degree to which the reported operating results, financial condition and changes in financial condition depend on estimates involved in applying accounting policies that entail uncertainties and subjectivity. To do this, a company should provide disclosures about (1) the critical accounting estimates it made in applying its critical accounting policies and (2) the initial adoption of an accounting policy that has a material impact on its financial presentation. The disclosures should focus on the most recent fiscal year and any subsequent interim period presented.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
A. Critical Accounting Estimates			
An accounting estimate is a "critical accounting estimate" if:			
<ul style="list-style-type: none"> • It requires assumptions that involve significant judgment or are subjective at the time the estimate is made; and • Different accounting estimates a company reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur, would have a material impact on reported financial information. 			
1. Does the disclosure identify and describe the critical accounting estimate and the methodology and assumptions underlying it?	_____	_____	_____
2. Does the disclosure explain and quantify how changes in the critical accounting estimate or the assumption(s) underlying it would affect the company's financial information?	_____	_____	_____
3. Does the disclosure explain the reasons for past changes to the critical accounting estimate, describe and quantify how they have affected prior financial statements and whether it is reasonably likely that there will be any change in the future?	_____	_____	_____
4. Does the disclosure state whether or not senior management discussed the development, selection and disclosure of the estimate with the audit committee?	_____	_____	_____
5. Does the disclosure supplement, not duplicate, the description of accounting policies that are disclosed in the notes to the financial statements?	_____	_____	_____

Yes	N/A	Comments
-----	-----	----------

B. Initial Adoption of Accounting Policies

If the company initially adopted an accounting policy (other than a new accounting standard) that had a material effect on its financial presentation, does the disclosure describe:

- | | | | |
|---|-------|-------|-------|
| (a) The events or transactions that gave rise to the initial adoption of the accounting policy? | _____ | _____ | _____ |
| (b) The accounting principle that has been adopted and the method of applying that principle? | _____ | _____ | _____ |
| (c) The impact (discussed qualitatively) on the company's financial presentation? | _____ | _____ | _____ |
| (d) The alternatives the company considered and the reasons for choosing the policy adopted (in situations where there is a choice between acceptable accounting policies)? | _____ | _____ | _____ |
| (e) How the company decided upon the policy adopted (in situations where no accounting literature governs the accounting)? | _____ | _____ | _____ |

RESULTS OF OPERATIONS

The discussion of the results of operations should describe the reasons for material year-to-year (or interim period to interim period) changes in income statement line items and historical relationships between line items, and the reasons why line items did not change when they would have reasonably been expected to change materially.¹⁶ Where more than one reason is discussed, the effects of each factor should be quantified. Unusual or infrequent items that had a material effect on the results of operations should be discussed as to cause and effect, and disclosure should be made of any presently known trends, events, or uncertainties that are reasonably likely to have a material impact on future operating results. A discussion of segment information should also be provided if it assists in the understanding of the business. It may be required in some cases, as discussed below. The discussion should cover each segment identified in other sections of the filing and other subdivisions the company considers relevant. There is no requirement to discuss the change in every line item. Companies should focus on the material changes.

Additionally, companies must discuss all periods presented in the financial statements, even when some of those periods relate to predecessor operations; are for periods shorter than a full 12-month period (for example, when a 9-, 10-, or 11- month period is presented in lieu of a full 12-month period, as permitted under Rule 3-06 of Regulation S-X); or do not reflect a significant purchase business combination. The fact that these periods are not "comparable" with the subsequent periods presented does not eliminate the requirement to discuss the periods and the reasons for the changes in the registrant's results of operations.

¹⁶The discussion may be structured as (1) separate comparisons of the most recent year to the immediately preceding year, and the immediately preceding year to the earliest (second preceding) year or (2) a combined discussion of the changes over the three years.

	Yes	N/A	Comments
A. Overall			
1. Does the discussion and analysis of the unusual items and trends impacting the financial results allow a reader to ascertain the likelihood that past performance is indicative of future results?	_____	_____	_____
2. Has the company considered increasing the use of tables when presenting/discussing financial information?	_____	_____	_____
B. Revenues			
1. Have material changes in revenues been analyzed as to those resulting from:			
(a) Changes in prices and the reasons why?	_____	_____	_____
(b) Changes in volume and the reasons why?	_____	_____	_____
(c) The introduction of a new product?	_____	_____	_____
(d) The effect of a purchased business?	_____	_____	_____
(e) Disposals, etc. not accounted for as discontinued operations?	_____	_____	_____
2. Where a change in volume was the cause of a material change in revenues, is there an analysis of the underlying reasons and material causes of the change, including whether the change resulted from a change in overall demand for the product or service, or a change in the company's market share?	_____	_____	_____
3. Where a business purchased in the current year or the prior year is the cause of a material change in revenues, is there a discussion of the change in pro forma revenues or similar discussion that describes any material changes or trends in the revenues of the purchased business?	_____	_____	_____
4. Has disclosure been made concerning any presently known trends, events or uncertainties that are reasonably likely to have a material effect on the amount or trend of revenues (including prices, volume or gross margin)?	_____	_____	_____
Examples include:			
(a) Changes in competitive conditions	_____	_____	_____
(b) Introduction of new products by the company or competitors	_____	_____	_____

	Yes	N/A	Comments
(c) Declining demand for, or obsolescence of, existing products	_____	_____	_____
(d) Loss or business difficulties of major customers	_____	_____	_____
(e) Changes in order backlog (including changes due to shipments of product at the end of a reporting period that significantly reduce customer backlog and may reasonably be expected to result in lower shipments and revenue in the next period)	_____	_____	_____
(f) Changes in types of customers (e.g. reseller instead of end user)	_____	_____	_____
(g) Seasonal trends or variations in sales	_____	_____	_____
(h) Changes in revenue mix (e.g. increasing percentage of service revenues compared to product revenues)	_____	_____	_____
C. Cost of Sales			
1. Has disclosure been made of the reason for any material changes in cost of sales, either in dollar amount or as a percentage of revenues?	_____	_____	_____
2. Have changes in gross profit been analyzed in terms of changes in:			
(a) Product mix?	_____	_____	_____
(b) Fixed costs?	_____	_____	_____
(c) Variable material costs - volume and/or pricing variances?	_____	_____	_____
(d) Variable labor costs - hours worked and/or rates?	_____	_____	_____
(e) The effect of a purchased business?	_____	_____	_____
(f) Disposals not accounted for as discontinued operations?	_____	_____	_____
3. Where cost of sales includes a significant fixed cost component, have the following been described:			
(a) The reasons why revenues increased or decreased without a comparable increase or decrease in gross profit?	_____	_____	_____

	Yes	N/A	Comments
(b) If gross profit increased due to increased sales, the extent to which further sales increases can be achieved at the current level of fixed costs?	_____	_____	_____
4. Has disclosure been made concerning any presently known trends, events or uncertainties that are reasonably likely to have a material effect on gross profit or the trend in gross profit?	_____	_____	_____
Examples include:			
(a) Changes in the price of key materials	_____	_____	_____
(b) Changes in labor costs due to an upcoming renegotiation of union contracts or other factors	_____	_____	_____
D. Other Operating Expenses (Including Selling, General and Administrative Expenses)			
1. Has disclosure been made of the reason(s) for any material changes in other operating expenses, and why those changes occurred?	_____	_____	_____
2. Where more than one reason is disclosed for (1) above, has the effect of each factor been quantified to the extent practicable?	_____	_____	_____
3. Where unusual or significant expenditures had a material impact on other operating expenses, has disclosure been made when it is reasonably likely that such expenditures will recur?	_____	_____	_____
4. Has disclosure been made concerning any presently known trends, events or uncertainties that are reasonably likely to have a material effect on the amount or trend of other operating expenses?	_____	_____	_____
Examples include:			
(a) Ability of the current level of expenses to support increased operations	_____	_____	_____
(b) Advertising or marketing expenses for new products or special promotions	_____	_____	_____
(c) Changes in administrative or marketing personnel	_____	_____	_____
(d) Changes in the level of research and development expenditures	_____	_____	_____
(e) Special compensation or bonus arrangements	_____	_____	_____
(f) Changes in lease terms	_____	_____	_____

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
E. Gains/Losses			
Is there a separate discussion of the gains/losses reported for the disposal of assets?	_____	_____	_____
F. Impairments (Potential and Incurred) and Unusual or Infrequent Items			
1. For impairments recognized, is there a discussion of:			
(a) The nature of the item?	_____	_____	_____
(b) The factors and events that gave rise to the item?	_____	_____	_____
(c) The reasons for the current charge?	_____	_____	_____
(d) The manner in which the amount of the current charge was determined?	_____	_____	_____
(e) The line item(s) in which it is reflected in the statement of income?	_____	_____	_____
(f) The reasonably likely impact on future operations?	_____	_____	_____
2. Has the method of measuring the fair value of the impaired item been clearly and adequately disclosed?	_____	_____	_____
3. If the amount of the impairment is based on internal cash flow projections, is there a discussion of the key assumptions made in those projections?	_____	_____	_____
4. Have the risks inherent in the assessment methods used to determine impairment been adequately disclosed?	_____	_____	_____
5. Is there disclosure of deteriorating operations, a worsening outlook or other incipient problems that do not cause impairments today, but are reasonably likely to lead to impairments in the future?	_____	_____	_____
6. If the analysis resulting from a potential impairment indicator concluded no impairment charge was necessary, has that determination (and the reasons for it) been disclosed?	_____	_____	_____

Yes	N/A	Comments
-----	-----	----------

G. Assets Held For Sale

1. Is there adequate disclosure of:
 - (a) The carrying amount of assets held for sale and subsequent changes in carrying amount?
 - (b) Expected disposal dates?
 - (c) The results of operations for the assets to the extent that those results are included in the period and can be identified?
 - (d) The effect of suspending depreciation?

--	--	--

H. Restructuring Charges

1. If the company has recognized a restructuring charge in the financial statements, does the discussion:
 - (a) Separately present information for each exit plan that has a material effect on the balance sheet, results of operations, or cash flows?
 - (b) Separately identify any charges that would have been recognized even if management did not adopt the restructuring plan?
 - (c) Distinguish amounts of asset write-downs and other noncash provisions from provisions made in anticipation of cash expenditures?
 - (d) Disclose in adequate detail the basis for determining the fair market value of asset write-downs?
 - (e) Specifically identify those operating units that will be or have been shut down as a result of the restructuring?
 - (f) Identify the nature of the items included in restructuring charges (e.g., information regarding employee terminations, including termination benefits, the number of employees to be terminated and a description of the groups to be terminated; inventory write-downs; leasehold termination payments, etc.)?
 - (g) Disclose the amount and timing of anticipated material expenses related to the restructuring for which no provision can be recorded currently under GAAP?

--	--	--

--	--	--

--	--	--

--	--	--

--	--	--

--	--	--

--	--	--

	Yes	N/A	Comments
(h) Included in (f) above discuss the specific income statement line items that will be impacted?	_____	_____	_____
(i) Disclose amount and timing of anticipated material cash outflows, including those for which no provision can be recorded currently under GAAP, and their source of funding?	_____	_____	_____
(j) Quantify the likely effects of the restructuring (e.g., reduced depreciation, employee expenses, etc.) and identify the initial period in which those effects are expected to be realized, including any offsetting effect of anticipated increases in other expenses or decreases in revenues?	_____	_____	_____
2. In periods after a restructuring activity has been initiated, is there adequate discussion of:			
(a) Material changes in the accrual balance, for each significant type of exit cost, either as a result of expenditures or changes in/reversals of estimates?	_____	_____	_____
(b) For expenses related to the restructuring activity that are recognized as they are incurred, the expenses incurred in the current period and the amount expected to be incurred in the future?	_____	_____	_____
(c) Reasons why savings expected to result from the restructuring were not achieved (if not achieved as expected) and the likely effect on future results?	_____	_____	_____
3. Is there disclosure of deteriorating operations, a worsening outlook or other incipient problems that are reasonably likely to lead to restructuring activities in the future?	_____	_____	_____
I. Research and Development Activities			
1. If the company is involved in research and development activities, have the following disclosures been made:			
(a) Current status of each significant project or group of projects?	_____	_____	_____
(b) Costs incurred to date on each project?	_____	_____	_____
(c) Nature, timing and estimated cost of efforts necessary to complete each project?	_____	_____	_____
(d) Anticipated completion dates?	_____	_____	_____

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
(e) If costs are not reasonably estimable, the identification of uncertainties that prevent such estimates?	_____	_____	_____
(f) Risks and uncertainties associated with completing development on schedule for each project?	_____	_____	_____
(g) Specific consequences if the project is not completed on a timely basis?	_____	_____	_____
(h) Period in which material net cash inflows from each significant project are expected?	_____	_____	_____

J. Business Combinations

1. If a company incurred exit costs or employee termination costs in connection with an acquisition, have the following been disclosed:

- (a) When the registrant began formulating exit plans for which accrual may be necessary?
- (b) The types and amounts of liabilities recognized for exit costs and involuntary employee termination benefits included in the purchase price allocation?
- (c) Any unresolved contingencies or purchase price allocation issues that have not been finalized? And in subsequent periods, the nature and amount of any material adjustments made to the original allocation?

	Yes	N/A	Comments
<p>2. If a company recorded in-process research and development costs, has it disclosed the:</p> <p>(a) Specific nature and fair value of each significant in-process research and development project acquired.</p> <p>(b) Completeness, complexity and uniqueness of the projects at the acquisition date.</p> <p>(c) Nature, timing, and estimated costs of the efforts necessary to complete the projects, and the anticipated completion dates.</p> <p>(d) Risks and uncertainties associated with completing development on schedule, and consequences if it is not completed timely.</p> <p>(e) Appraisal method used to value projects.</p> <p>(f) Significant appraisal assumptions, such as:</p> <p style="padding-left: 20px;">i. Period in which material net cash inflows from significant projects are expected to commence;</p> <p style="padding-left: 20px;">ii. Material anticipated changes from historical pricing, margins and expense levels; and</p> <p style="padding-left: 20px;">iii. The risk adjusted discount rate applied to the project's cash flows.</p> <p>(g) In periods after a significant write-off, the status of efforts to complete the projects, and the impact of any delays on the company's expected investment return, results</p>	_____	_____	_____
<p>3. If material contingent liabilities were assumed in the acquisition, have any unrecognized preacquisition contingencies and their reasonably likely effects on operating results, liquidity, and financial condition been disclosed?</p>	_____	_____	_____
K. Interest Expense			
<p>1. Have material changes in interest expense been analyzed in terms of the effect of changes in the level of borrowings and changes in the effective interest rates?</p>	_____	_____	_____
<p>2. Is there a discussion of the material effect(s) interest rate swaps, caps, or similar arrangements have had or are reasonably likely to have on interest expense?</p>	_____	_____	_____

	Yes	N/A	Comments
L. Income Tax Expense			
1. Is there a discussion of the reasons why the company's effective tax rate differs materially from the statutory rate? ¹⁷	_____	_____	_____
2. If the balance sheet includes a material deferred tax asset recorded under SFAS 109 whose realization depends on generating future taxable income, ¹⁸ is there disclosure of:	_____	_____	_____
(a) The factors management considered in determining that realization of the future tax benefits was more likely than not?	_____	_____	_____
(b) Quantification of the minimum annual level of, or increase in, taxable income necessary to realize the net operating loss carryforwards and other future benefits before they expire?	_____	_____	_____
(c) The reasons and key assumptions underlying management's belief that it is more likely than not that the levels of income discussed in (b) above will be achieved.	_____	_____	_____
Examples include:			
i. Unusual losses in prior years	_____	_____	_____
ii. Anticipated increases in pre-tax accounting income	_____	_____	_____
iii. Projected changes in the relationship between pre-tax accounting income and taxable income	_____	_____	_____
(d) The extent to which management's conclusion that realization is sufficiently likely is based on the ability to implement "tax planning strategies"? (Disclosure should include a general description of the strategy and key factors concerning the ability to implement it.)	_____	_____	_____

¹⁷ To the extent such information is presented in a financial statement footnote in response to the disclosure requirements of GAAP or Rule 4-08(h), MD&A may refer to such disclosure.

¹⁸ These disclosure requirements generally are triggered by the existence of a net deferred tax asset. However, companies that have net deferred tax liabilities may also need to consider such disclosures if the net liability includes material deferred tax assets that require the generation of future taxable income to be realized.

	Yes	N/A	Comments
3. Is the accounting for deferred tax assets (i.e., the amount of the valuation allowance) consistent with the disclosures regarding current and expected future operating results? (For example, optimistic disclosures about prospects for the future coupled with a valuation allowance might indicate that either the narrative disclosures are unreasonably optimistic or the valuation allowance is excessive.)	_____	_____	_____
4. Is there a discussion of the reasonably likely material effects of any recent or expected future changes in tax laws?	_____	_____	_____
M. Discontinued Operations and Extraordinary Items			
1. If the company has discontinued operations, is there adequate discussion of:			
(a) The historical operating results of the discontinued operations?	_____	_____	_____
(b) If the disposal has not yet occurred, the expected impact on liquidity, financial condition and results of operations of operating the disposal group until the disposal date and the proceeds to be received and costs to be incurred in connection with the disposition? (This discussion should also cover the significant factors considered in estimating these effects and, if applicable, the reasons why these estimates could change significantly.)	_____	_____	_____
(c) The reasonably likely effects on reported results and liquidity of material contingent liabilities, such as product or environmental liabilities or litigation that may remain with the company notwithstanding disposal of the underlying business?	_____	_____	_____
2. Is there a discussion of the impact (and reasonably likely future impact) of extraordinary items on the results of operations?	_____	_____	_____
3. If the company retains a financial interest in the discontinued components, or their buyer, that is material to the company, is there a discussion of known trends, events, and uncertainties that may affect the amount ultimately realized on the investment (e.g., financial condition and operating results of the issuer of the security)?	_____	_____	_____

Yes	N/A	Comments
-----	-----	----------

N. Intangible Assets

Does MD&A identify and discuss both recognized and unrecognized material intangible assets, what management does to develop, protect and exploit them, and their effect on the enterprise's market value?

--	--	--

O. Segments

1. Are any segments identified and discussed in MD&A consistent with those identified in:

(a) The business section?

--	--	--

(b) The financial statements?

--	--	--

(c) Press releases and other public documents?

--	--	--

(d) Internal documents used by the chief operating decision maker(s)?

--	--	--

2. Does MD&A address changes in operating results based on the company's segments as defined by SFAS 131 as a supplement to the analysis on a company-wide basis? Segment information is required to be included in the business section and in the financial statements. Based on segment information disclosed elsewhere in the document, is there an adequate discussion of changes in segments, in particular when:

(a) Individual segments contribute disproportionately to changes in operating results?

--	--	--

(b) Expected or known trends will significantly affect the results of one segment?

--	--	--

(c) Changes in gross profits, revenues and operating expenses differ by segments?

--	--	--

(d) A new segment will arise as a result of a recent or pending acquisition?

--	--	--

(e) An individual segment has more than one significant revenue source that yields different gross profit or operating income?

--	--	--

Yes	N/A	Comments
-----	-----	----------

P. Foreign Currencies

If the company has material foreign operations, or transactions or balances denominated in foreign currencies, is there adequate discussion of:

(a) The key foreign currencies in which the company effects transactions?

--	--	--

(b) The effects changes in foreign currency exchange rates have had on the trends in sales, cost of sales and other income statement line items displayed after translation under SFAS 52 into the reporting currency?

--	--	--

(c) The direct effect of changes in foreign currency exchange rates on the results of operations, e.g., foreign currency transaction gains and losses, impact on revenue if an exporter, impact on cost of sales if an importer?

--	--	--

(d) The future impact of presently known trends toward a highly inflationary economy of a foreign operation?

--	--	--

(e) The methods, if any, used by the company to minimize or hedge the effect of changes in foreign currency exchange rates, and the effect of those transactions on the results of operations?

--	--	--

(f) Anticipated changes, if any, in the company's use of hedging transactions?

--	--	--

Q. Key Indicators of Financial Condition and Operating Performance

1. Is there disclosure of key variables and other factors, which would be material to investors, that management uses to manage the business?

--	--	--

2. If the company uses any non-financial statistics to enhance the explanation of the operating results, are the calculations of the statistics readily apparent or explained?

--	--	--

R. Related Party Transactions

1. If the company has been involved in transactions with related parties as defined in SFAS 57 and/or Item 404 of Regulation S-K, have descriptions of all such material transactions been disclosed, including:

(a) The business purpose of the arrangement?

--	--	--

	Yes	N/A	Comments
(b) Identification of the related parties transacting the business with the company?	_____	_____	_____
(c) How transaction prices were determined?	_____	_____	_____
(d) If transaction was evaluated for fairness, how the evaluation was made?	_____	_____	_____
(e) Any ongoing contractual or other commitment as a result of the arrangement?	_____	_____	_____
2. If there have been transactions with parties that fall outside the definition of related parties but are non-independent, resulting in a relationship where either party may be able to negotiate terms that would not be available from other, more clearly independent parties, have these transactions been disclosed to the same extent as related party transactions?	_____	_____	_____

S. Impact of Inflation

Where the impact of inflation is material, is there a discussion of the effects of changing prices and inflation on revenues and income from continuing operations?¹⁹ (This discussion is not required for interim periods.)

	_____	_____	
--	-------	-------	--

T. Share-Based Payment

If the company has accelerated the vesting of options, has the reason (i.e., to avoid future compensation expense upon adoption of SFAS 123(R)) for the modification been disclosed?

	_____	_____	
--	-------	-------	--

U. Other

1. For each of the applicable items above, has there been adequate discussion and analysis of:

(a) Matters that are reasonably likely to have a material impact on future operations but have not had a material impact in the past?

	_____	_____	
--	-------	-------	--

(b) Matters that have had an impact on operating results in the past but are not expected to materially impact future results?

	_____	_____	
--	-------	-------	--

2. Are all of the items discussed in prior periods still material to the understanding of the business?

	_____	_____	
--	-------	-------	--

¹⁹ The materiality of the effect of inflation on cost of sales, depreciation and the resulting income from continuing operations should not be judged solely on the inflation in the current year. For these items, materiality is based on the cumulative impact of inflation from the time the inventory or depreciable assets were acquired.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
3. If an analysis of the quarterly results for the most recent year indicates a reversal or significant change in the trends indicated by year-to-year comparisons (e.g., gross profit has declined in the most recent quarter, but overall has increased from the prior year), has this been disclosed and the reasons and reasonably likely future effects discussed?	_____	_____	_____
4. Is there a discussion of the effect of treasury stock purchases or other equity transactions on EPS and future operating results of the company?	_____	_____	_____
5. Is there a discussion of the effects (to the extent known) that the adoption of recently issued, but not yet adopted, accounting standards will have on the results of operations or financial position (see Staff Accounting Bulletin 74 (Topic 11-M))?	_____	_____	_____
New accounting standards that should be considered for calendar 2004 MD&As include:			
(a) SFAS 123(R) Share-Based Payment	_____	_____	_____
(b) Other SFAS pronouncements, FSPs, EITF consensuses, SOPs, etc.	_____	_____	_____
6. If MD&A covers the results of operations for interim periods, is there a discussion of:			
(a) Any effects of seasonality on the results of operations?	_____	_____	_____
(b) Any reasons why the results of operations for interim periods might not be indicative of the results for a full fiscal year?	_____	_____	_____
7. Voluntary forward-looking information:			
(a) For each of the applicable items above, has the company considered including voluntary forward-looking discussions about the potential impact of anticipated (but not reasonably likely) future events?	_____	_____	_____
Examples include:			
i. The potential impact on revenue of anticipated price changes or volume changes, and the reasons why such events are anticipated	_____	_____	_____

	Yes	N/A	Comments
ii. The potential impact on cost of sales of anticipated changes in raw material costs or in availability of supplies, and the reasons why such changes are anticipated	_____	_____	_____
iii. Anticipated changes in interest rates or in borrowing or investment levels, and their potential impact on interest expense or interest income	_____	_____	_____
iv. Anticipated changes in technology, the economy, inflation, etc. and their potential impact on revenues, expenses and results of operations.	_____	_____	_____
(b) If (a) above is yes, has the appropriate qualifying language been included so that the company can take advantage of the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995?	_____	_____	_____

LIQUIDITY AND CAPITAL RESOURCES

Liquidity generally refers to a company's ability to generate cash from operations. The discussion of capital resources should focus on the company's sources of capital and its capital expenditure commitments and plans. Liquidity and capital resources may be discussed separately or, as is generally the case, on a combined basis. The discussion should include a balanced discussion of the company's liquidity and sources and uses of capital resources (and changes therein) both historically and prospectively, on both a short-term and long-term basis. As stated in Financial Reporting Release No. 61,²⁰ liquidity "disclosures should not be overly general. For example, disclosure that the registrant has sufficient short-term funding to meet its liquidity needs for the next year provides little useful information. Instead, registrants should consider describing the sources of short-term funding and the circumstances that are reasonably likely to affect those sources of liquidity.... The discussion ... should be sufficiently tailored to the company's individual circumstances, rather than 'boilerplate.' ... Registrants are reminded that identification of circumstances that could materially affect liquidity is necessary if they are 'reasonably likely' to occur.... Market price changes, economic downturns, defaults on guarantees, or contractions of operations ... can be reasonably likely to occur under some conditions."

	Yes	N/A	Comments
A. Liquidity			
1. Have the reasons <i>why</i> cash flows from operations changed been discussed?	_____	_____	_____

²⁰ Release No. 33-8056, *Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations.*

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
Does the discussion encompass the changes in operating results discussed under "Results of Operations" and also explain the reasons for any material change in cash flows from operating activities including:			
(a) Changes in accounts receivable and inventory?	_____	_____	_____
(b) Changes in financing through trade payables?	_____	_____	_____
(c) Changes in the timing of the payment of significant accruals?	_____	_____	_____
2. Have all sources of short-term and long-term funding been adequately described?	_____	_____	_____
3. Have circumstances that are reasonably likely to affect short-term funding been discussed? The discussion should include the following:	_____	_____	_____
(a) Material change in the level of accounts receivable, whether and to what extent that change results from (i) the expansion or contraction of operations or (ii) a change in the rate of accounts receivable turnover and the effect on short-term funding of the change?	_____	_____	_____
(b) Changes in the terms of sales or sales agreements to customers (e.g., granting extended payment terms that will result in longer collection periods for accounts receivable) and the resulting impact on short-term funding?	_____	_____	_____
(c) Material change in the level of inventory, whether and to what extent that change results from (i) the expansion or contraction of operations or (ii) changes in the rate of inventory turnover and the effect on short-term funding of the change?	_____	_____	_____
(d) Material change in the level of accounts payable, whether and to what extent that change results from (i) the expansion or contraction of operations or (ii) a change in the timing of accounts payable payments and the effect on short-term funding of the changes?	_____	_____	_____
4. Has the extent of the risk and potential impact on future liquidity for any of the following been discussed:			
(a) Changes in accounts receivable turnover?	_____	_____	_____
(b) Changes in inventory turnover?	_____	_____	_____

	Yes	N/A	Comments
(c) Changes in the timing of accounts payable payments?			
(d) Decrease in demand for the company's products or services?			
(e) Technological changes related to product/services offered?			
(f) Debt rating downgrade, if commercial paper is a material source of short-term funding?			
5. Is there a discussion of the extent to which any anticipated growth in income will not immediately increase liquidity due to investment in accounts receivable and inventory, net of financing through accounts payable?			
6. Is there a discussion of the extent to which any anticipated decrease in income will not immediately decrease liquidity due to collection of accounts receivable and reduction of inventory, net of payment of accounts payable?			
7. If a deficiency in operating cash flows exists or is presently known to be reasonably likely, has disclosure been made of the course of action the company has taken, or proposes to take, to remedy the situation?			
8. If the company has disclosed restrictions on the ability of subsidiaries to transfer funds to the parent (Regulation S-X, Rule 4-08(e)(3)), does MD&A include a discussion of the nature and extent of such restrictions and the impact they are expected to have on the parent's ability to meet its cash needs?			
9. If the auditor's report contains an explanatory paragraph concerning the company's ability to continue as a going concern, does MD&A include a detailed discussion of the company's ability or inability to generate sufficient cash to support its operations during the next twelve months?			
10. Is there an adequate discussion of any presently known trends, demands, events, commitments, or uncertainties that are reasonably likely to have a material impact on future liquidity?			
Examples include:			
(a) Overall changes in operating results			

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
(b) Trends in collections or concentrations of credit risk	_____	_____	_____
(c) Anticipated changes in inventory levels	_____	_____	_____
(d) Changes in terms of trade payables	_____	_____	_____
(e) New operating leases	_____	_____	_____
(f) Unfunded pension or other post-retirement benefit obligations	_____	_____	_____
(g) Contingent tax and other liabilities (either recorded or unrecorded), including potential liabilities as a Potentially Responsible Party identified by the EPA	_____	_____	_____
(h) Recent or reasonably possible future violations of debt agreement covenants	_____	_____	_____
(i) Possible changes in discretionary operating expenditures (e.g. R&D, advertising)	_____	_____	_____
(j) "Maturities" of deferred tax liabilities	_____	_____	_____
(k) Future payments under contracts, such as debt and lease agreements	_____	_____	_____
11. Is liquidity discussed on a segment basis where restrictions on the free flow of funds between segments exist, or other liquidity factors differ significantly among segments?	_____	_____	_____
12. Is there disclosure of any changes in employee pension or other postretirement plans that could have a material impact on the company's liquidity, such as:			
(a) Changes in the funded status of the plans?	_____	_____	_____
(b) Change from a traditional defined benefit plan to a cash balance plan?	_____	_____	_____
13. If historical cash flows have varied materially, is there disclosure of the reasons for changes and their impact on future flows?	_____	_____	_____
B. Capital Resources			
1. Is there a discussion of the company's unused sources of capital, including:			
(a) Unused short-term facilities?	_____	_____	_____

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
(b) Unused long-term facilities?	_____	_____	_____
(c) Potential debt or equity offerings?	_____	_____	_____
(d) Unleveraged assets that could be leveraged, sold, or sold and leased back?	_____	_____	_____
(e) Overfunded pension plans?	_____	_____	_____
2. Is there a discussion of any reasonably likely future changes in the mix and relative cost of the company's various sources of capital, due to:			
(a) Recent or upcoming expiration of, or changes in the terms of, loan agreements?	_____	_____	_____
(b) Changes in the company's credit rating?	_____	_____	_____
(c) Recent or anticipated financings or refinancings?	_____	_____	_____
3. Is there disclosure of the company's committed or anticipated capital expenditures for the next year, and the expected source of funds?	_____	_____	_____
Examples of capital expenditures include:			
(a) Purchases of property and equipment?	_____	_____	_____
(b) Assets acquired under capital or operating leases?	_____	_____	_____
(c) Acquisition of businesses?	_____	_____	_____
(d) Significant research and development programs?	_____	_____	_____
(e) Environmental compliance expenditures?	_____	_____	_____
4. Is there discussion of debt covenants when either the company is or is reasonably likely to be in violation of a covenant or if the covenants impact the company's ability to incur additional debt?	_____	_____	_____
5. Is there an adequate discussion of the funds necessary to maintain current operations, complete projects underway and achieve stated objectives or plans?	_____	_____	_____
6. Where the company has incurred new material debt, is there a discussion of the reasons for incurring the debt, the use of those proceeds, and how it fits into the overall business plan?	_____	_____	_____

OFF-BALANCE SHEET ARRANGEMENTS

The MD&A rules require discussion of off-balance sheet arrangements if necessary to an understanding of a company’s financial condition, changes in financial condition or results of operations. Amendments to the MD&A rules adopted in January 2003 (see Release No. 33-8182) clarify the disclosures companies must make with regard to off-balance sheet arrangements and require companies to set apart disclosure relating to off-balance sheet arrangements in a separate section of MD&A. The items below reflect the requirements in Release 33-8182.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
1. Have all off-balance sheet arrangements ²¹ that have or are reasonably likely to have a material current or future effect on the company’s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources been disclosed (in a separate captioned section of MD&A) in a manner that provides information necessary to an understanding of such arrangements and their effects?	_____	_____	_____
2. Does the disclosure include the following:			
(a) Nature and business purpose of the off-balance sheet arrangement?	_____	_____	_____
(b) Importance of the arrangement to the company’s liquidity, capital resources, market risk support, credit risk support or other benefits?	_____	_____	_____
(c) The amount of revenues, expenses, and cash flows of the company arising from the arrangements?	_____	_____	_____
(d) The nature and total amount of any interest retained, securities issued and other indebtedness incurred by the company in connection with such arrangements?	_____	_____	_____
(e) The nature and amounts of any other obligations or liabilities (including contingent obligations or liabilities) of the company arising from such arrangements that are or are reasonably likely to become material and the triggering events or circumstances that could cause them to arise?	_____	_____	_____
(f) Any known event, demand, commitment, trend, or uncertainty that will, or is reasonably likely to, result in the termination, or material reduction in of the arrangement?	_____	_____	_____

²¹ An off-balance sheet arrangement is defined as any contractual arrangement to which an unconsolidated entity is a party, under which the company has: (1) any obligation under certain guarantee contracts; (2) a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets; (3) any obligation under certain derivative instruments; (4) any obligation under a material variable interest held by the company in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or engages in leasing, hedging or research and development services with the company.

	Yes	N/A	Comments
(g) Any other information that is necessary for an understanding of the arrangements and their effects on the company?	_____	_____	_____

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Amendments to the MD&A rules adopted in January 2003 (see Release No. 33-8182) clarify the disclosures companies must make with regard to contractual obligations and commercial commitments and require companies to provide an overview of certain known contractual obligations in a tabular format. The tabular disclosure must be included in MD&A but the specific location is at the discretion of the company. The items below reflect the requirements in Release 33-8182.

	Yes	N/A	Comments
1. For filers other than S-B filers, is there a tabular disclosure of contractual obligations? (The table is encouraged for small business issuers.)	_____	_____	_____
(a) Does the table include at least the following categories:			
i. Long-Term Debt Obligations?	_____	_____	_____
ii. Capital Lease Obligations?	_____	_____	_____
iii. Operating Lease Obligations?	_____	_____	_____
iv. Purchase Obligations?	_____	_____	_____
v. Other Long-term Liabilities Recorded on the Balance Sheet?	_____	_____	_____
(b) Does the disclosure present the payments due in total and by period for the following periods?			
i. Less than 1 year?	_____	_____	_____
ii. 1-3 years?	_____	_____	_____
iii. 3-5 years?	_____	_____	_____
iv. More than 5 years?	_____	_____	_____
(c) Does the table contain footnotes that describe provisions that create, increase, or accelerate obligations, or other pertinent data necessary to understand the timing and amount of the contractual obligations?	_____	_____	_____
(d) Does the table contain footnotes that explain what is included and excluded from the table and why?	_____	_____	_____

SPECIAL TOPICS WITH BROAD EFFECTS

The topics covered above are generally relevant to a specific aspect of MD&A (i.e., operating results or liquidity and capital resources). Listed below are several topics may affect the discussions of both operating results and liquidity and capital resources. These are topics that have been of special interest to investors in recent years.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
A. Pensions			
Is there a discussion of the investment return assumptions, the underlying estimates (and uncertainty surrounding them) and the potential for material impact on reported results and cash flows, if such estimates change?	_____	_____	_____
Does the disclosure address the following:			
(a) The estimated effect of net unrealized gains or losses on future pension expense?	_____	_____	_____
(b) The method used to determine expected long-term rates of return for each asset category?	_____	_____	_____
(c) Any expected changes between the investment rate of return currently disclosed and the rate anticipated?	_____	_____	_____
(d) Differences between the assumed and actual asset allocation, if applicable?	_____	_____	_____
(e) A sensitivity analysis (under which the investment return assumption is modified to reflect reasonably likely changes and the discount rate assumption remains constant)?	_____	_____	_____
B. Environmental or Product Liabilities			
If the company has material ²² “probable” or “reasonably possible” contingent liabilities for environmental or product liability matters, is there a discussion of the scope of the contingencies affecting the company, including:			
(a) The estimated amount and timing of the company's payments with respect to these matters?	_____	_____	_____
(b) To the extent that the company is insured against such risks, the estimated amount, timing of the receipt of insurance proceeds, the likelihood that the claims may be contested, and the financial condition of the party from which recovery is expected?	_____	_____	_____

²² For this disclosure, materiality should be assessed based on the possible or reasonably possible liability without reduction for potential insurance recovery.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
(c) The potential effect on liquidity and financial position of any significant difference in the timing of company payments and the receipt of insurance proceeds, or any significant difference between the probability of liability and the probability of insurance recovery?	_____	_____	_____
(d) The historical and anticipated recurring costs associated with managing hazardous substances and pollution in on-going operations?	_____	_____	_____
(e) The historical and anticipated capital expenditures to limit or monitor hazardous substances or pollutants?	_____	_____	_____
(f) The historical and anticipated mandated expenditures to remediate previously contaminated sites?	_____	_____	_____
(g) Other infrequent or nonrecurring clean-up expenditures that can be anticipated but which are not currently required?	_____	_____	_____
(h) Disaggregated disclosure, where necessary for a full understanding of the contingencies, that describes accrued and reasonably likely losses with respect to individually material environmental sites?	_____	_____	_____
(i) Uncertainties with respect to amounts accrued and disclosed if management's investigation of potential liability is at different stages with respect to individual environmental sites?	_____	_____	_____
(j) The nature of personal injury and property damages alleged by product liability claimants?	_____	_____	_____
(k) The historical and expected aggregate settlement costs by type of product liability claim and their reasonably likely effects on operating results and liquidity?	_____	_____	_____
(l) The historical and expected costs of litigating and administering product liability claims and their reasonably likely effects on operating results and liquidity?	_____	_____	_____
(m) Disaggregated disclosure, where necessary for a full understanding of the contingencies that describes accrued and reasonably likely losses with respect to individually material product liability claims?	_____	_____	_____

	Yes	N/A	Comments
(n) Disclosure of, where necessary for a full understanding of a large number of individual product liability claims of a similar type, the number of claims outstanding at balance sheet date, the number of claims filed for each period presented, the number of claims dismissed, and the average settlement amount per claim?	_____	_____	_____

C. Investments In High-Yield Financings

If the company has significant investments in high-yield financings, is there a discussion of:

(a) The nature, significance and company policies regarding those activities?	_____	_____	_____
(b) The extent to which these investments produce significantly higher returns and may pose higher risks?	_____	_____	_____
(c) The actual historical and reasonably likely future effects of such activities on financial condition or results of operations?	_____	_____	_____

D. Preliminary Merger Negotiations

If a merger is the subject of preliminary negotiations, does MD&A include a discussion of the reasonably likely impact of such a merger on financial condition and the results of operations?²³

	_____	_____	_____
--	-------	-------	-------

E. Federal Financial Assistance

If the company is receiving federal assistance in connection with a federally assisted acquisition or restructuring, is there a discussion of:

(a) The effects of such assistance on financial condition and results of operations?	_____	_____	_____
(b) The reasonably likely effects of such assistance on future financial condition and results of operations?	_____	_____	_____

F. Investments in Securities

1. If the company has significant investments in debt securities that are carried at amortized cost, does MD&A include:

(a) Disclosure of gross unrealized gains and losses, if material?	_____	_____	_____
---	-------	-------	-------

²³ Where disclosure of preliminary merger negotiations is not otherwise required and has not otherwise been made, the MD&A need not contain such information if, in the company's view, such disclosure would jeopardize completion of the transaction.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
(b) The effects on income of sales of securities from the portfolio carried at amortized cost?	_____	_____	_____
(c) The circumstances that caused management to sell securities that previously were represented as being held-to-maturity?	_____	_____	_____
(d) The effect of sales or unrealized losses on future income and investment yields?	_____	_____	_____
2. If the company had an other-than-temporary impairment charge for a marketable debt or equity security, has the company disclosed:			
(a) The amount of the charge?			
(b) The reasons for the charge and its timing?			
(c) The segment recognizing the charge?			
(d) Risks and uncertainties regarding future declines?			
(e) The estimated effects of material declines on the registrant's liquidity?	_____	_____	_____
3. For material unrecognized charges (i.e., security declines determined to be temporary), has the company disclosed the amount of the unrecognized charge, as well as the key assumptions and factors considered in making the determination? Such factors would include the type and carrying value of the security and the timeframes involved.	_____	_____	_____

G. Derivatives

If the company participates in derivatives activities, is there adequate discussion of:

(a) How and the extent to which derivatives alter the company's risk profile from what would normally be expected for a company in this industry?	_____	_____	_____
(b) The risks associated with cash instruments and how derivatives are used to manage those risks?	_____	_____	_____
(c) The risk management strategies used and any limitations on their effectiveness, e.g., if a strategy is effective within a narrow band of interest rates but could fail if interest rates move outside that range?	_____	_____	_____
(d) Methods and quantified parameters used to monitor and control risk management activities?	_____	_____	_____

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
(e) Results of past risk management activities?	_____	_____	_____
(f) All outstanding hedging instruments, including embedded derivatives?	_____	_____	_____
(g) The effect of derivatives activities on historical and future earnings and cash flows?	_____	_____	_____
H. Non-Exchange Traded Contracts			
1. If the company is involved in trading activities of commodity contracts, is there adequate disclosure of:			
(a) Realized changes in fair value?	_____	_____	_____
(b) Unrealized changes in fair value?	_____	_____	_____
2. Is there a reconciliation of the fair value of commodity contracts at the beginning of the year to the fair value at the end of the year, including changes due to:			
(a) Contracts realized or otherwise settled during the year?	_____	_____	_____
(b) Fair value of new contracts entered into during the period?	_____	_____	_____
(c) Changes in fair value due to changes in valuation techniques?	_____	_____	_____
(d) Other changes in fair value?	_____	_____	_____
3. Is disclosure of the fair value of commodity contracts as of the balance sheet date disaggregated by:			
(a) Contracts whose fair value is determined directly from quoted market prices?	_____	_____	_____
(b) Contracts whose fair value is estimated based on other external sources?	_____	_____	_____
(c) Contracts whose fair value is based on models or other valuation methods?	_____	_____	_____
4. Are the fair values of 3 (a) through (b) above disclosed in total and by maturity date, including:			
(a) Those maturing in less than one year?	_____	_____	_____
(b) Those maturing in one to five years?	_____	_____	_____

	Yes	N/A	Comments
I. Non-GAAP Financial Measures			
1. Are any non-GAAP financial measures presented in the MD&A allowed under Regulation G, Item 10 of Regulation S-K and S-B, GAAP (SFAS No. 95) and ASR 142? ²⁴	_____	_____	_____
This literature prohibits the following:			
(a) Excluding charges or liabilities that required, or will require, cash settlement, or would have required cash settlement absent an ability to settle in another manner, from non-GAAP liquidity measures, other than the measures EBIT and EBITDA;	_____	_____	_____
(b) Adjusting a non-GAAP performance measure to eliminate or smooth items identified as non-recurring, infrequent or unusual, when (1) the nature of the charge or gain is such that it is reasonably likely to recur within two years, or (2) there was a similar charge or gain within the prior two years;	_____	_____	_____
(c) Using titles or descriptions of non-GAAP financial measures that are the same as, or confusingly similar to, titles or descriptions used for GAAP financial measures;	_____	_____	_____
(d) Disclosing a non-GAAP financial measure that, taken together with the information accompanying the measure, contains an untrue statement of a material fact or omits to state a material fact necessary to make the measure not misleading;	_____	_____	_____
(e) Presenting cash flows per share information; and	_____	_____	_____
(f) Presenting other per share non-GAAP financial measures that are calculated on other than a diluted basis.	_____	_____	_____
2. If allowed non-GAAP measures are presented:			
(a) Is the most directly comparable financial measure calculated and presented in accordance with GAAP presented with equal or greater prominence?	_____	_____	_____

²⁴ Codification of Financial Reporting Releases, Section 202.

	Yes	N/A	Comments
(b) Has a reconciliation of the differences between the non-GAAP financial measure and the most directly comparable financial measure or measures calculated and presented in accordance with GAAP been presented?	_____	_____	_____
(c) Are the reasons why the non-GAAP measure provides useful information to investors disclosed?	_____	_____	_____
(d) If material, are the additional purposes, if any, for which the management uses the non-GAAP financial measure disclosed?	_____	_____	_____

J. Structured Transactions

If the company has structured a transaction for financial reporting purposes (e.g., to achieve a specific accounting objective), has the reason been disclosed?

Examples include:

- (a) Leasing transactions designed to avoid capital treatment under SFAS 13
- (b) Financial products designed to avoid liability treatment under SFAS 150
- (c) Restructuring of special purpose entities to avoid consolidation under FIN 46(R)

FOREIGN PRIVATE ISSUERS

The MD&A requirements for foreign private issuers are contained in Item 5 of Form 20-F. These requirements mirror the substantive MD&A requirements for U.S. companies.²⁵ The SEC staff's views on the preparation of MD&A by a foreign private issuer may be found in Staff Accounting Bulletin 88 (Topic 1-D.1). Listed below are matters that should be considered in preparing the MD&A of a foreign private issuer.

	Yes	N/A	Comments
1. Does MD&A include a reference to the footnote reconciliation of the differences between the accounting principles used in the primary financial statements and U.S. accounting principles?	_____	_____	_____
2. Where necessary for an understanding of the financial statements, does MD&A include a discussion of the material historical or reasonably likely future effects of differences between the accounting principles used in the primary financial statements and U.S. accounting principles? Disclosures should include the following:			
(a) Significant differences in key financial indicators highlighted in the home-country GAAP disclosures but not ordinarily required to be reconciled to U.S. GAAP, such as revenues or operating income.	_____	_____	_____
(b) Differences resulting in a significant divergence of trends between key home country GAAP and U.S. GAAP amounts.	_____	_____	_____
(c) Differences that are likely to grow significantly in future periods because they relate to outstanding long-term contracts with fixed terms.	_____	_____	_____
(d) Differences related to specialized industry accounting that may be unfamiliar to U.S. investors, particularly where home country GAAP would not ordinarily be expected to produce significant differences.	_____	_____	_____
(e) Significant differences reflected in the separate financial statements of a recently acquired business that are not yet fully reflected in the company's financial statements.	_____	_____	_____
(f) Differences reflected in the separate financial statements of an equity method investee, whose effects are not fully apparent in the company's financial statements.	_____	_____	_____

²⁵ See Release No. 33-8182, particularly footnote 135.

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
3. Is there a discussion of any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect:			
(a) The company's operations?	_____	_____	_____
(b) Investments in the company's securities by U.S. nationals?	_____	_____	_____
4. Does the discussion of recently issued, but not yet effective, accounting standards (see Staff Accounting Bulletin 74 (Topic 11-M)) address standards issued under the GAAP used in preparing the primary financial statements, as well as those under U.S. GAAP?	_____	_____	_____
5. Does the discussion of critical accounting policies/estimates address those used in the primary financial statements as well as those used in the reconciliation to U.S. GAAP?	_____	_____	_____

CONCLUSION

	<u>Yes</u>	<u>N/A</u>	<u>Comments</u>
Have all trends, demands, events, commitments, and uncertainties that have come to your attention (through review of internal or public sources or discussions with people within or outside the company) that are reasonably likely to have a material impact on the financial condition or results of operations of the company been adequately disclosed in the MD&A?	<hr/>	<hr/>	<hr/>

Prepared by: _____

Date: _____

Reviewed by: _____

Date: _____