



Financial Reporting

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Annual Stockholders' Meetings - Possible Questions

Preparing for the stockholders' meeting

The central themes discussed at annual meetings this year will likely be: the prospects for increased sales and profits in the expanding domestic economy, management's strategy to compete in the global marketplace, computer systems that may not be Year 2000 compliant, the recent SEC focus on earnings management, share price appreciation in relation to overall stock market performance, the push toward Internet commerce and international trade issues, including the advent of a single European currency, and the effects of the Pacific-Rim and South American economic crises.

Management should be prepared to respond to stockholder concerns about these and other issues that may affect your company. The annual stockholders' meeting also gives you an excellent opportunity to highlight your company's progress toward achieving its goals and to respond to inquiries from interested stockholders and the media.

We can help you prepare for the meeting in two ways. First, BDO Seidman, LLP, is ready to assist you in anticipating stockholder questions and developing meaningful responses.

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Also, we have prepared a comprehensive list of questions that stockholders may pose to you at your annual meeting. The questions have been developed based on the premise that stockholders want to learn more about your company than can be gleaned from reading press reports, the president's letter, other information contained in 10-K filings made with the SEC or from outside analysts' reports.

Stockholders are interested in your strategies and why you made specific decisions that impact your company and their investment. They also are concerned about the economy, the climate for raising capital in the stock or bond markets, executive compensation, corporate governance, management's philosophy about growing the business (including possible mergers or acquisitions), financial risks, any plans to restructure operations, employee health care costs, international trade issues, the use of technology, human resources management, corporate policies on ethics, and any other events and circum-

stances that may affect your company in the domestic and worldwide venues. The effects of these areas on your company should be carefully considered in preparing for your meeting.

Although our list of possible questions is comprehensive, it should not be considered all-inclusive, so consider the likelihood that other issues might be raised, especially those that apply specifically to your company's operations, industry or special niche.

The economy

With the domestic economy continuing to expand, many companies have reported higher earnings. Although the business climate is expected to remain favorable for the foreseeable future, competition remains intense with few opportunities to raise prices.

Although the economic expansion in our domestic economy has continued longer than any other recent period in American history, the future business climate, as always, will contain uncertainty.

You should expect questions from shareholders on how these economic circumstances may affect your company. In that regard, stockholders will want to know whether the company has moved to eliminate excessive inventories and facilities, and reduce costs to operate more competitively, whether cost-cutting actions may adversely affect its long-term competitiveness, whether it has changed its product mix and sales prices in response to changing levels of demand, and what actions the company plans to take if the economy softens. They will also make queries into what new products and services are on your drawing boards, and how management plans to compete in new or newly developing markets.

Non-compliant Year 2000 computer systems

Much has been published about how the Year 2000 (Y2K) issue may affect business operations. Stockholders may ask about the scope of the problem involving non-compliant computer

systems, how your company plans to address those problems and the anticipated costs. They may also be interested in learning more about the company's vulnerability caused by interaction with the computer systems of your customers, suppliers, financial intermediaries and others. They may ask questions about contingency plans or whether your company has business interruption insurance to cover possible catastrophic losses. In this regard, the SEC has posted questions for shareholders to ask related to Y2K issues on its Web site at www.sec.gov.

The stock market

Although stock market indices are currently at or near record levels, individual stock prices continue to be volatile. Stockholders may be concerned about how your company's stock has performed during this period, both in relation to the overall market and to your competitors, and how you expect your company to perform during the remainder of 1999. Additionally, concerns may be expressed about the possible effects of earnings surprises on share prices, particularly in view of historically high-price earnings multiples. On a number of occasions in the past year, dramatic share price declines have occurred in response to failures of some companies to meet their analysts' expectations. The SEC is currently focusing on the possible factors that may contribute to earnings management, which should be a concern to all investors.

SEC focus on earnings management and audit committee effectiveness

The Chairman and the Chief Accountant of the SEC have made speeches during 1998 highlighting issues relating to earnings management. They are concerned that the motivation to meet analysts' earnings expectations may be circumventing proper accounting. Based on the widespread publicity given these speeches, stockholders may ask questions about the quality of your earnings, the

effectiveness of your audit committee and the strength of your internal controls. They may also ask questions about how earnings expectations are determined by the company and its analysts and, if deviations from those targets have occurred, how they are communicated.

In response, in part, to the SEC's concerns about the effectiveness of audit committees, the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees was formed in 1998 and recently released its report on the subject. The Report provides 10 recommendations aimed at strengthening independence, improving effectiveness, and addressing mechanisms for audit committee accountability. The Report may be found on-line at www.nyse.com or www.nasd.com. Shareholders may ask whether the company has implemented or plans to implement the voluntary recommendations.

Executive compensation

The disclosures about executive compensation and stock performance that are contained in your annual report are intended to focus stockholders' attention on how management is compensated and how their compensation correlates to your company's performance. Disclosures that are required about compensation costs for incentive stock option plans and similar awards may raise the level of interest in executive compensation. You should expect questions on any changes in compensation levels and their relationship to the earnings performance of the company. Stockholders also are likely to ask about the mix of annual and long-term performance-based compensation and the composition of the board's executive compensation committee. Stockholders may also ask questions about what specific disclosures on compensation mean or how some amounts disclosed in the financial statements were determined or how the amounts shown compare to industry norms.

Management's attitude toward takeovers

Merger and acquisition activity was strong in 1998, and this trend is expected to continue at a high level for the foreseeable future. M&A activity has continued to grow, in part, as a result of sustained levels of earnings growth and growing share price multiples. Stockholders may want to know if management is planning to achieve growth by acquiring businesses or is receptive to acquisition proposals from others. They may ask how recent industry consolidations or planned transactions will affect shareholder value. They may ask whether management has erected any roadblocks to prevent corporate takeovers, such as "poison pills," "contingent dividends," or "shareholder rights plans" and, if so, whether they are in the stockholders' best interests. Stockholders also may want to know about any new plans or policies designed to increase share prices (e.g., stock buy-backs, spin-offs and special dividends).

Derivatives and financial controls

In recent years, there have been several newspaper headlines reporting spectacular losses from financial derivatives contracts (e.g., options, futures, interest rate swaps, caps and collars), some of which have resulted from transactions that were unauthorized or from other misuses of company assets, or from overriding financial controls. Many forms of financial fraud have made headlines again this year. As a result, stockholders expect companies to implement and maintain strong internal controls to guard against these unfortunate events. There may be specific questions from stockholders about the adequacy of your company's financial and operating controls, and your risk management strategies. You also may be asked whether your company has an effective audit committee and an internal audit group, and whether such groups contain representation from insiders. In addition, stockholders may want to know if the company has created an atmosphere of fraud awareness in which all employees

are encouraged to report fraud without fear of reprisal. Stockholders also may ask questions about the nature and extent of the company's use of derivative contracts, and how the company controls its derivatives activities. Questions may also be posed about the impact of new accounting requirements that will require derivatives to be measured at fair value in the balance sheet beginning in mid-1999.

Potential restructuring charges

The financial press continues to report a number of substantial write-offs by companies to reflect asset impairments or the costs of restructuring their operations. Some of these write-offs have been made with relatively little forewarning, and some companies have made these supposedly non-recurring charges multiple times over the past few years. In addition, impairment write-downs may also raise questions if the timing of the write-off coincides with changes in the composition of top management. Be prepared to discuss the rationale behind any charges that may have been made and whether your company has excess capacity, obsolete facilities, unprofitable operations, or other significant issues that may lead to additional write-offs or restructuring charges in the near future. Questions may also revolve around the effects that prior or current write-offs, or restructuring charges will have on comparisons between past, current, and future reported earnings and the related impact on share prices.

Health care costs

Although the subject of health care costs has received significantly less attention in the press lately, there are indications that this trend may be reversing. For many companies, these costs continue to be significant. Stockholders may ask about the company's current and projected employee health care costs, and any plans for controlling these costs, particularly if the company is paying health costs for retired and terminated employees. The

dramatic growth of all forms of managed care has been one response that companies have made to combat increased medical costs for their employees in recent years. The use of managed care programs may raise questions about the rights of employees to receive quality care. Concerns about patient care have spurred legislative initiatives. The possibility of increased regulation and additional costs that employers might incur may trigger questions in this area.

International trade

Clearly, the biggest story affecting international trade continues to be the downturn of many foreign economies, including those in the Pacific-Rim, South America, Russia and China. Shareholders may inquire about the company's exposure to loans or investments made in those regions, or major customers located in those areas, and whether they may curtail purchases of goods or services. They may also request your insight into how your company may be affected by expected increases of cheap exports to the United States by companies that are attempting to respond to changes in their economies. Although the dollar has continued to be strong, some contend that this hurts U.S. competitiveness by making exports more costly to foreign consumers of U.S. products and services. If your company does business in Europe or South America, or competes with companies located there, shareholders may ask what effect changes in foreign currency exchange rates between these countries and the U.S. dollar have had on the company. Stockholders also may ask about the effects of the unification of European currencies (i.e., the euro conversion) or the impact of the North American Free Trade Agreement.

Use of technology

Only a few years ago, it would have been difficult to imagine the dramatic change that the Internet has made in our daily lives. As an example, today,

nearly one-third of all retail brokerage trades are conducted through the Internet. Realizing the potential for increased shareholder value, stockholders may ask how your company plans to take advantage of the new technology. Stockholders also may ask how state-of-the-art technology is being employed throughout the company's operations. Questions may range from basic issues such as whether the company has established a home page on the Internet to more complex issues related to how the company uses or plans to use technology to achieve a competitive advantage and expand markets worldwide. This could lead to inquiries about whether technology-based solutions are driving work process improvement activities, which in turn should reduce costs, improve responsiveness and produce above average returns. You should also be prepared to address questions related to cost/benefit considerations as well as training and education for workers displaced by technological changes.

Human resources

Stockholders may ask how the company's work force measures up against its foreign competitors. Just to keep pace, many companies will incur significant costs to train employees to use new technology. Stockholders also may be concerned about the company's exposure to labor problems, including contract negotiations, its ability to attract and retain key employees, and maximize labor productivity.

Questions also may arise about how your company is planning for its future by developing lower-level employees so they may one day assume leadership roles and by fostering a corporate culture that promotes loyalty which leads to productivity gains.

Corporate ethics

Misappropriation of corporate funds by executives or others, discrimination against women or minorities, and other publicized allegations of abuses by top

management can have an adverse impact on the public's perception of a company. Stockholders may ask whether the company has a written code of conduct designed to foster a strong ethical climate in its relations with customers, suppliers, employees and others, and to comply with laws and regulations, including laws against sexual harassment and discrimination.

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Of course, stockholders are likely to ask questions similar to those of prior years, so you also should review those questions that have been posed at prior stockholder meetings. Preparation is the key to an effective presentation at the meeting. This requires anticipating questions and formulating responses.

The future

Management's plans

- What plans have been implemented to ensure that the company's computer systems are Year 2000 compliant? Do those plans consider the impact of computer systems operated by customers, suppliers, vendors and the like?
- Does management have an estimate of the cost of converting or replacing current computer systems that are not Year 2000 compliant? What impact would a catastrophic computer systems failure have on the company? Is the company insured for any losses that might be sustained?
- Does the company sell its products or services over the Internet? If not, when does the company plan to establish Internet commerce? What precautions are being taken to ensure that information transmitted through the Internet does not fall into the wrong hands?
- What impact does the euro have on the operating strategies that have been formulated by the company?

Are you anticipating significant costs for computer or other systems changes?

- If the company has historically employed derivative strategies to hedge exposure to specific European foreign currency exchange rate changes, how have these strategies changed in light of the introduction of the euro?
- Are there plans to cut, restore or increase the company's dividend?
- Has the company considered streamlining or restructuring its operations? If yes, when will this be announced, and what is the expected impact on earnings in the current year and future years? Has the company notified employees that might be affected?
- What new products will be introduced this year and next year? What are the expected market shares and profit contributions of each new product? Are your competitors considering similar strategies?
- What contingency plans are in place if it is necessary for the company to react to sudden changes in the economy? Can additional bank financing be arranged on short notice?
- Who are the company's major foreign competitors? What plans does the company have to address increased foreign competition?
- How has the North American Free Trade Agreement affected the company? If labor rates are lower abroad, why hasn't the company moved operations to those locations?
- Does the company plan to expand its business into South America, Eastern Europe or Russia? Has the company considered the impact of possible political and economic changes that may affect operations in these locations?
- What effect did the near-collapse of many economies in the Pacific-Rim, South America, China and Russia

have on the company? Does the company expect any benefits or difficulties to arise as a consequence of these actions? If those foreign economies experience sudden declines, how would the company react to the possible flood of cheap imports from foreign competitors?

- Does the company expect to buy back any of its own common stock? Would the company pay a market premium if it were able to purchase large blocks of shares from institutional investors? How would this affect the share price?
- Does the company plan to initiate or expect to receive any merger proposals? How would the company determine if a proposed merger would benefit the shareholders? Why has or hasn't the company employed anti-takeover measures, and how does this impact shareholder value?
- Would the company consider plans to go private? How would this action affect current shareholders and creditors? If this action is contemplated, how would current shareholders be assured that they will receive a fair price?
- Does the company plan to issue additional incentive stock options to employees or other insiders? How much earnings dilution will existing shareholders experience, and what factors are considered in deciding how many options are granted and at what price to which executives?
- Does the company plan to offer employees early retirement or other termination incentives to reduce costs and overhead expenses?
- Who is next in line to succeed the CEO, Chairman and CFO when they retire or leave the company?
- What are the major strategic and operating problems facing the company in the next five years? How does management plan to address these issues?
- How does the company use information technology to help achieve

competitive advantages? Do you have a chief technology officer responsible for recommending and implementing new technology? Approximately what costs were incurred last year and this year, and what costs are expected to be incurred next year?

- How do the company's product quality and productivity goals compare to its competitors? What plans are in place to assist displaced workers? What is the labor union's position on this issue?
- How is the company making the best use of available technology in its manufacturing operations? How is management addressing union and employee concerns about jobs being eliminated through plant automation?
- How is the company employing the Internet to improve efficiency, open new markets or support continued sales to key customers? What measures are being taken to ensure that sensitive information transmitted through the Internet is not compromised?
- Has the company outsourced any of its data processing operations? If not, has this been considered and how were the risks of this action assessed?
- Is there any idle production capacity? If so, what actions are being considered to eliminate this idleness?
- What is the R&D budget for this year and next, and how does it compare to the expenditures that management anticipates will be made by the company's competitors? What new products and services are expected to result from these efforts? What are the expected returns for these new products, and how long will it take to recover R&D costs incurred?
- How does the company plan to take advantage of the bankruptcy of competitor Y? Why did that company fail, and what measures

are you taking to ensure that a similar fate is not in store for your company?

- What new financial products are being offered to customers and are these products being marketed by competitors? Is the company a counterparty to any of these transactions? If yes, what is the maximum exposure to the company if the financial products fail to perform as intended?

Liquidity and capital resources

- Will the company be able to satisfy its short-term cash requirements without obtaining additional financing through the issuance of new debt or equity securities? Can capital be raised quickly if needed?
- What is the company's current price-earnings ratio? Why is it so high or low compared to competitors? In light of this, why has or hasn't the company issued additional common stock to meet its business expansion plans?
- Does the company have a policy against notifying investment analysts ahead of the market regarding developments which may affect the value of the company's securities that are publicly traded? Why did Executive X fail to confirm or deny a certain analyst's forecast of company earnings when asked in a recent press article?
- What portion of the company's long-term debt bears interest at floating rates? Are these interest rates tied to the U.S. dollar or another index such as the London Inter-Bank Overnight Rate (LIBOR)? If these rates are not based on the dollar, has the company considered measures to reduce the risk of loss from foreign currency exchange rate changes?
- How does the company's debt-to-equity ratio compare to the ratios of its major competitors? How does the company use debt capital to maximize shareholder returns? How are the risks associated with the current debt load assessed?

- Does the company have contractual commitments from lenders for short-term borrowing needs? What costs have been incurred to ensure these borrowings are available to the company?
- How has the outlook for the stock market and bond market affected the company's plans for a public offering of its stock or debt? What industry or company factors are relevant in creating a favorable environment for raising additional equity or debt capital?
- Would the company consider raising equity or debt capital from a private placement of its common stock or debt to institutional investors? Why or why not? Would institutional investors receive more favorable terms in comparison to the terms that might be negotiated with other third parties?
- What are management's plans for the proceeds from the recent issuance of its stock or debt, sale of subsidiary X, patents, trademarks or tangible assets such as plant, equipment or real estate? How are investment returns on potential new capital projects assessed? What factors are weighed in deciding what course of action should be taken in the event a particular project fails to meet expectations?
- Does the company have an investment committee charged with making recommendations for employing excess working capital? What policies are in place to guide these investment decisions?
- Has the company entered into any financing arrangements that are not reported in the financial statements? Does the company use derivatives contracts such as options, forwards, interest rate swaps and the like? Why are these being (not being) employed? If the company uses derivatives, how is their use monitored by management? What is the significance of the information provided about the

market risks attributable to derivatives contracts?

- Why was the company's credit rating changed, and what impact will this have on future borrowings? Is it possible that the company may restructure its debts or file for bankruptcy protection? What effect would this have on existing shareholders, creditors, employees and the communities in which the company operates?
- Have transactions such as asset sales and sale leasebacks been considered to satisfy liquidity needs?
- What is the amount of the company's capital budget for next year and the following year? Are cash flows from operations sufficient for these needs? If not, how will these requirements be financed?
- How will liquidity of the company be affected by restrictions placed on subsidiary X, which prevent it from paying dividends to the parent company?
- If the earnings of the company are increasing year-to-year, why are cash outflows from operations being incurred? What is management doing to address this issue, and how long is this expected to continue?
- Will any pending litigation affect the company's liquidity needs? How does management assess the potential economic impact of litigation in deciding what course of action it will take?
- Why were dividend reductions made without first reducing other expenses, including executive compensation? What factors does management consider in determining what levels of compensation are appropriate?
- How does the company's dividend policy compare to the industry? Has the company considered declaring a stock split or stock dividend? Does a stock split or stock dividend have a positive effect on long-term shareholder value?

- Has the company considered adopting a dividend reinvestment program?
- Has the company violated any loan covenants that were imposed by lenders during the past year? What costs were incurred to obtain waivers or to restructure these debts? Are additional violations expected in the near term?
- Does the company invest in junk bonds or highly leveraged companies? What criteria are used to assess the credit risk and reward for these investments? How does the company avoid possible conflicts of interest whenever members of management have business or investment relationships with these companies?
- Does the company hold any real estate or other assets that have increased in value but are not reported at fair value in the financial statements? If yes, which assets have increased in value and by how much? Does the company's stock price reflect this fact?
- What is the funded status of the company's defined benefit pension plans? How are investment decisions that affect pension plan assets made? What investment rates of return have been achieved, and are these returns sustainable over the long-term?

Legislative and regulatory

- Why has it taken so long for the company's patent applications to be approved? What is the likely impact on sales and earnings if certain patent applications are approved or not approved? When does the patent expire on Product X?
- To what extent have changes in the tax laws affected the company? Will the company consider increasing or decreasing asset allocations as a result of tax law changes in foreign or domestic jurisdictions?
- Have tax authorities challenged the company's transfer pricing that is used to compute taxable income on

“inter-company” transfers between foreign and domestic jurisdictions? What is the likely outcome of that challenge?

- Does the company employ lobbyists to influence Congressional action? Which matters are of interest to the company and how much is being spent on lobbying efforts?
- What benefits or costs have been realized or incurred as a result of the implementation of the Federal Family Leave legislation?
- What effects do cheap imports have on the company? What is the company's position on import quotas? Is the U.S. Customs Service investigating the company's importing and exporting practices? If so, what is the status of the investigation?
- Has the SEC investigated the company, the company's management or questioned any of its reporting practices? What is the status of matter X, and what is management doing to resolve the issue?
- Are any of the company's products subject to government regulation? Does the company have any significant new products awaiting government approval? What is the expected approval date?
- Is the company under investigation by any federal or state regulatory agency? What issues are involved, and how will the issues be resolved? When will the investigation end?
- What percentage of the company's sales is from government contracts? Are any of these contracts subject to renegotiation? When do such contracts expire?
- Is the company in compliance with immigration rules and regulations? How is compliance with laws and regulations monitored?
- Does the company have overseas operations? How do foreign wages and benefits compare to those for the company's U.S. workers? How many U.S. jobs have been moved overseas in the last X years? How much money has been saved by doing so?

- Does the company have internal legal and tax functions? If not, which outside firms are used to provide legal and tax advice? Are any members of these firms also directors of the company?
- Did the company pay any significant federal, state or local tax, or foreign penalties recently? What measures are being taken by management to reduce or eliminate non-deductible interest and tax penalties?
- What strategies are used by the company to minimize corporate income taxes? Are any of these strategies subject to challenge by the tax authorities? Are the effects of potential income tax disallowances reflected in the financial statements?
- How does management assess whether tax-planning strategies are effective in managing its income tax obligations domestically and on a worldwide basis?
- If the company operates in a regulated industry, has it been subject to a regulatory examination during the past year? What were the results of the examination? If the exam resulted in the discovery of deficiencies, how is management planning to address the problems identified?
- What impact, if any, did securities litigation reform legislation have on the company? Is the company a defendant or plaintiff in any securities litigation actions? If yes, what is the likely outcome?

Future earnings

- What are management's plans for maximizing shareholder value in 1999 and beyond?
- Does the company take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act, which encourages companies to make forward-looking information available to the public? What is your best estimate of sales and earnings for this year and next?

- How is the economy affecting the company's expectations for sales, earnings and dividends for next year? What growth rates are expected for the company this year and next? What are the most significant factors that impact these performance expectations? Which factors are beyond the company's control?
- How do first quarter earnings compare to the earnings that were projected for the period? What estimates are the most significant in formulating realistic earnings expectations?
- How does the current sales backlog compare with that experienced by the company in the prior year? Why has it changed? Is management able to determine the sales backlog of competitors? If yes, has this backlog increased or decreased relative to the company's experience? Why?
- Does the company publish earnings forecasts? What factors are used to derive these forecasts? Are these intentionally conservative?
- What actions are being taken to ensure shareholder value is maximized on a long-term basis? What is the single most important factor in achieving long-term goals?
- Which business segment is growing the fastest and why? What are the anticipated sales and earnings increases for each of the company's business segments?
- Which new products are being developed to ensure the company maintains its competitive advantage? What are the typical lead times and product life cycles? How does this compare to the competition?
- Is the company considering any mergers, acquisitions or divestitures in order to reduce risks attributable to its current operating concentrations? What are management's acquisition or divestiture plans? How would they be financed?
- Are any changes in accounting methods contemplated? Will the

transition allow shareholders to obtain meaningful comparisons to earnings reported in prior years?

- Does management agree with analysts' expectations for earnings in the next quarter and for 1999 earnings? If it is necessary to revise earnings' forecasts, how will this information be communicated to the public? How does the company ensure that changes in earnings forecasts are communicated in a manner that prevents insiders from benefiting from advance warnings?

Other factors

- Does the company have any significant sales or purchase commitments for commodities that are vital to sustain critical operations? Are financial derivative contracts, such as futures contracts, used to ensure a steady supply or constant price for these items?
- Does the company anticipate Company X, which now owns a significant percentage of the company's stock, to increase or decrease its holdings? What impact will this have on share prices? How many seats on the board of directors does Company X have?
- What is the status of labor relations? Do any of the current labor contracts link wages to productivity increases? What issues will the company and union likely seek to negotiate when the current contracts expire?
- Does the company rely heavily on imports or exports, or compete with foreign companies? If so, how will the changing value of the dollar affect the company's competitive position? What measures are being taken to reduce the possibility of loss from foreign currency exchange rate changes?
- Will the current economic problems faced by foreign countries have an impact on the company's operations? Has the company considered reducing or increasing its investments in those countries?

Have alternative sources of supply and investment been considered?

- How have political uncertainties in specific regions of the world affected the company's current operations and future earnings expectations?
- What is the likelihood that a foreign government will nationalize the company's operations? What effect would nationalization have on the company as a whole? What contingency plans does the company have to protect its foreign assets? Which foreign countries, if any, restrict or prohibit the repatriation of earnings or assets?

Understanding the 1998 financial statements

Financial condition

- Does the company believe its current financial condition is stronger or weaker when compared to one year ago? What factors does management use to assess the company's financial condition? Are management incentives based on financial condition, cash flows, results of operations or a combination of these factors? If so, then why?
- How will the financial position or earnings of the company be affected by the new accounting rule that will soon require financial derivative contracts to be carried in the balance sheet at fair values? Does the company use these contracts for hedging existing risks or for speculative purposes?
- What interest rates would the company pay if it were to issue additional long-term debt in today's market? How do these interest rates compare to those that the company is currently paying on its debt obligations? Has the company considered refinancing its long-term debt?

- Why are certain assets and liabilities in the company's historical financial statements stated at fair value, current replacement cost, historical cost, net realizable value or other basis? What would be the amount of stockholders' equity if all assets and liabilities were presented on a single basis, for example, at fair value?
- What do the captions "unearned compensation," "accumulated foreign currency translation adjustment," "unrealized gain or loss on marketable equity securities," and "minimum pension obligation" represent? Why do these captions appear in the stockholders' equity section of the company's balance sheet?
- To what extent are estimates by management part of the financial reporting process? How does management determine when and if a change in estimate is appropriate?
- Why did the company write down the value of assets this year or last year? What effect will the write down have on future reported profits?
- What is goodwill, and why was reported goodwill written down for a particular segment or subsidiary? How does the company assess the recovery or value of goodwill? How likely is it that a large write-off may occur during the next few years?
- Does the company have receivables denominated in foreign currencies? Are there any collection problems?
- Did the company enter into any securities repurchase agreements with financial institutions or other counterparties during the year? Were the agreements with well-known and reputable companies? Did the company obtain control of the underlying collateral that secures the value or reduces the risk of these transactions? How is compliance with management policies for these transactions monitored?
- What does the caption "deferred tax asset" represent? Why are income tax benefits being deferred? If a val-

uation allowance was used to reduce reported deferred tax assets, what assumptions were used in determining the allowance? Are those assumptions consistent with the company's and analysts' expectations about future earnings?

- Why does the caption "redeemable preferred stock" appear outside of the stockholders' equity section of the company's balance sheet? How much preferred stock was redeemed at the option of investors during last year and the last quarter? What factors influence investors' decisions about whether they redeem their preferred stock? Has management taken actions to encourage or discourage redemptions?
- What factors does management consider in determining whether it chooses to "call" or redeem certain outstanding securities? Why is the dividend rate or interest rate different for these securities versus those securities that are not redeemable at the company's option?
- What is the company's unfunded pension liability? What does the company intend to do about any overfunded plans? Has management considered any changes to those overfunded pension plans?
- Did the company adopt or amend any retirement plans this year? What were the costs or savings?
- How did the company determine the fair value of financial instruments that are disclosed in the annual report? If values were not disclosed, why was the company unable to determine their fair value?
- Since the fair value of certain financial instruments is so much higher or lower than their cost, why isn't the difference recorded in the financial statements?

Results of operations

- What are the factors that cause differences between the company's reported earnings and its cash flow?

In managing the business, does management rely more on reported earnings or cash flow? What are the most important economic trends that management relies upon in managing the day-to-day business of the company?

- What is the significance of the new caption appearing in the financial statements titled "comprehensive income?" What components are included in other comprehensive income, and why are these items excluded in determining net income?
- Why does the company issue options, warrants and convertible securities if such securities have the potential to dilute the interests of current shareholders? How do these actions increase shareholder value?
- Has the company attempted to raise the prices of its products or services recently? Was this successful? If not, then why not?
- What items are included in the caption "deferred start-up costs?" What will be the impact on earnings from the new accounting rule that requires, beginning in 1999, these costs to be deducted from income when incurred?
- What factors are used by management to assess the performance of its operating segments? Who is the chief operating decision-maker referred to in the company's discussion of its operating segments? What incentives are used to ensure each segment is maximizing shareholder returns?
- Why do operating profits as a percentage of sales differ among business and geographic segments? What is management doing to promote increased margins in Segment X?
- How did domestic and international economies affect 1998 operations? What would be the impact on 1999 profits if additional foreign economies experienced difficulties this year?

- Were there any foreign currency exchange gains or losses in 1998 and in interim 1999 operations? What is the company doing to minimize the impact of changes in foreign currency rates? Does the company hedge its foreign currency commitments?
- What amount was incurred by the company for health care costs for its workforce last year and last quarter? What steps are being taken to control these costs? Why does the company provide or not provide health insurance for retirees? Does the company believe it would incur significant cost increases if legislation were passed that regulated managed-care providers?
- How do the company's operating results and financial ratios compare with those of its competitors?
- What percentage of the sales increase or decrease was the result of price increases or decreases? To volume increases or decreases?
- How was the company's financial performance affected by the changing value of the dollar in relation to a specific foreign currency?
- Did sales and earnings meet management expectations in 1998? How are expectations benchmarked?
- How much did the company spend on advertising in 1998? What are advertising expenditures expected to be in 1999? What factors are considered in determining if advertising is effective?
- What is the company's share of the (product name) market? What is being done to increase its share?
- Are any of the company's significant customers experiencing financial difficulties? What are management's plans to minimize any adverse impact that might result if these customers become insolvent? Have the company's credit policies been reviewed to reflect changes in the economic environment?

- Does management anticipate incurring losses from concentrations of credit risk which are discussed in the annual report? What is management doing to reduce credit risk concentrations? Will these actions impact sales and earnings?
- What was the nature of research and development costs for each of the last three years? Does the company spend less (as a percentage of sales) on research and development than its competitors? What new products were introduced in 1998 as a result of research and development efforts? Were any research and development projects abandoned? If so, what were their costs?
- What is the quality of the company's earnings (e.g., unusual or non-recurring sources of income that are not separately disclosed)?
- How much did the company spend to recruit and train personnel? How are these costs monitored, and how is cost effectiveness assessed?

Other matters

- Why does the company rely exclusively on a particular customer or supplier? Could this relationship adversely affect shareholder value?
- Were any accounting policies or estimates changed this year?
- Why does management use a particular accounting method (e.g., revenue recognition, amortization method, and cost deferral) in light of different policies used by the company's competitors?
- Which proposed accounting rules would significantly change the company's reported financial position or operating results? Would the proposals provide better information to shareholders and does management support the proposed changes?
- In computing reported earnings, why doesn't the company use fair value to report the cost of incentive stock options issued to employees? Is the requirement to disclose infor-

mation about the fair value of incentive compensation awards (e.g., such as that found in the financial statement footnotes) considered in determining grants of incentive awards?

- How does management assess the significant operating, market and credit risks that are discussed in the annual report?
- What is the company doing to minimize income taxes? Does the company employ competent personnel who are knowledgeable in the area of income tax law? If not, which outside sources are used to advise the company on complicated tax issues?
- Are any of the company's tax returns currently being examined by the IRS? Has the IRS proposed any changes? What is the likely outcome of these challenges? Is the company disputing any findings of state, local or foreign tax authorities?
- Why did the company acquire Subsidiary X or invest in Y joint venture? How successful was the acquisition? What is the fair value of the company's investment? What long-term rates of return does management believe are sustainable for these new investments? What measures did management take to ensure that the amounts paid for these investments were fair?
- Why did the company divest itself of Subsidiary X? What was the fair value of the assets? Did the company receive at least the fair value? How was fair value determined?
- Which transactions were executed with related parties? Were the terms of the transactions at amounts approximating arms-length or fair value? Who are the related parties? Are these transactions benefiting any specific shareholders, creditors or others?
- Why were there significant adjustments to the reported earnings of the company during a particular period? Are these adjustments indicative of weak management

controls? How is management planning to correct the problems?

- Why doesn't the company provide more information about its expected earnings?
- Why doesn't the company release earnings earlier? Why does the price of the company's stock decrease or increase so much in response to relatively small changes between actual and expected earnings? Does this volatility relate to the high-price earnings multiple of the company's stock?
- Why does the company file financial reports with the SEC on Form 10-KSB (which requires only a balance sheet for the current year and income statements, statements of comprehensive income, and cash flow statements for the most recent two years) rather than on Form 10-K (which requires balance sheets for the last two years and income statements, statements of comprehensive income, and cash flow statements for the last three years)?

Executive compensation

- How is executive compensation determined? Does the company have a formal compensation committee charged with the responsibility of setting fair, equitable and competitive compensation awards that allow the company to achieve its goals? Are insiders members of this committee?
- Is compensation based on subjective factors, a specific formula or other objective criteria? Are compensation awards effective in increasing shareholder value? Do all members of management own stock in the company?
- To what extent are incentive stock options used to compensate management or other employees?

Does the company have an employee stock ownership plan (ESOP)? What are the advantages of the ESOP and is it effective in increasing shareholder value?

- Why did Mr./Ms. X's compensation increase or decrease, given the prospects of the company?
- Why did Mr./Ms. X's compensation increase even though the company's stock has under-performed the market index, or its industry or peer-group index?
- Why is such a high percentage of total compensation paid annually as opposed to long-term or performance-oriented awards? Is the company considering making long-term compensation a larger part of total compensation?
- Is officers' compensation comparable to that of similar companies? Is there a ceiling on officers' compensation? What correlation is there between executive compensation and the market price of the company's stock?
- Does the company use outside executive compensation consultants?
- Is all of the executive compensation (i.e., amounts over \$1 million) deductible for income tax purposes? If not, then why not? Is the company making any changes to its compensation programs as a result?
- Why did the company lower the exercise price of stock options granted to its executives in prior years in response to the current decrease in the market price of the company's stock price? If the market price of shares continues to fall, does the company expect to continue to re-price these incentive options?
- Would the company stop re-pricing its employee stock options if new accounting rules were to require recognition of additional compensation expense whenever the stock price increases above the adjusted

strike price of the re-priced options?

- Does the company have any special executive compensation agreements that are triggered in the event the company becomes the target of an unsolicited takeover or merger offer (i.e., "golden parachutes")? If yes, why does management believe these arrangements are in the best interest of the company and its stockholders?
- What benefits are payable to officers in the event of termination? Have any significant termination benefits been paid in recent years?
- What is the company's policy on loans to officers and directors? Have any executives received loans from the company to purchase stock or exercise incentive stock options? Are the loans made on an arm's-length basis at market interest rates? Are the loans subject to recourse provisions and is collateral required?
- What perquisites are available to management? Are company airplanes, automobiles, club memberships, apartments, and other facilities available to executives for personal use? Is the company reimbursed for the fair value of the personal use? How does this enhance shareholder value?
- Did the company pay for financial planning, tax or legal services rendered to executives by its independent auditors, attorneys, or others?
- Are management perquisites and other fringe benefits approved by the board or its compensation committee?
- Are officers' expense accounts under budgetary control? Who reviews officers' expense reports? What was the total amount of executive expense allowances this year? How does that compare to last year?
- How did the company choose which companies to include in its peer group index for stock perfor-

mance? Why was or wasn't Company X included? Why has the company's stock under-performed relative to the market or peer group index?

- Why are there so many interlocking directorships between the company's officers and the independent directors on the board or executive compensation committee?

Internal control

- Has the company been victimized by fraud? If so, how was the fraud discovered, and what actions are being taken to prevent similar actions?
- How have internal controls kept pace with the company's growth and increased complexity?
- Does the company have an internal audit department? How large is the department? What are its responsibilities? Are members of that department independent of all accounting functions? To whom does it report?
- Do auditors, either internal or independent, visit all of the company's locations at least annually?
- Did the independent or internal auditors identify any material weaknesses in internal control or other reportable conditions? Have corrective actions been taken?
- Why doesn't the annual report include a management report assessing the effectiveness of the company's internal control? What would it cost to include such a report and have the independent auditors report on internal control?
- Has the company implemented the recommendations of the Treadway Commission or the related COSO report in assessing its internal controls (e.g., mandated audit committees, management's report on internal control, risk assessment programs, codes of conduct, internal audit functions and timely reviews of quarterly financial data)?

If not, what actions are being considered that would be responsive to such recommendations?

- Are computer control activities reviewed by the independent auditors? What was their evaluation as to the adequacy of such control activities?
- Has the company hired consultants to assist in Year 2000 planning? Is the company ready, and what were the costs of converting any non-compliant systems?
- Are there adequate physical safeguards for computer software and hardware? Is there a disaster recovery plan in place?
- Has the company taken measures to prevent the infiltration of computer viruses or other intrusions?
- Has the company established a written policy on corporate conduct regarding possible conflicts of interest and illegal acts to guide key personnel in their business activities? How is compliance monitored? Do the policies apply to foreign subsidiaries? If so, are operations in foreign countries that have conflicting business practices adversely affected?
- Is there a system in place that allows employees to report, on a confidential basis, suspected fraud, misuse of assets or violations of company policies?

The audit committee and its functions

- Does the company support the voluntary recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees?
- Are all audit committee members independent, having no relationships that may interfere with the exercise of their independence? Have any members or their immediate families been employed by the company within the last five years?

- How are the qualifications of audit committee members assessed?
- Does the committee have a formal charter that has been approved and is reviewed annually by the board of directors?
- Does management review the company's annual report with the audit committee? Do the external auditors discuss the accounting principles used by the company with the committee?
- Does the audit committee monitor the nature and extent of non-audit services performed by the external auditors?
- Why does or doesn't the company have an audit committee? What criteria are used to select the members of the audit committee? What are their qualifications and backgrounds?
- Does the audit committee have access to adequate resources to perform its duties properly? What is their budget for the coming year?
- Do the external and/or internal auditors have direct access to the audit committee? How many times did the external and/or internal auditors meet with the audit committee? Does the work of the internal auditors complement the independent auditors' work?
- How often did the audit committee meet last year? Does the audit committee review the nature and scope of audit procedures to be applied by the internal and external auditors?
- Did the audit committee evaluate the work performed by the independent auditors?
- Did the audit committee evaluate internal controls by reviewing the independent auditors' and internal auditors' recommendations for improving internal control and monitoring management's implementation?
- Is the audit committee aware of any possible illegal acts or conflicts of interest? If so, what is being done about them?

- Are the company's attorneys instructed to report any illegal acts to the audit committee on a timely basis?
- Are interim and annual financial statements reviewed by the audit committee and discussed with the independent auditors prior to release to the public?
- Does management discuss the accounting treatment for large and unusual, or significant year-end transactions with the audit committee?
- What issues did the audit committee discuss with the independent auditors last year? How were these issues resolved?
- Does the audit committee review the internal auditors' reports? How are the recommendations made by internal auditors evaluated for possible action?

The board of directors and its activities

- Has the company established policies and procedures for responding to the discovery of illegal acts and for informing the SEC about illegal activities as required by the Private Securities Litigation Reform Act?
- Has any outside director made recommendations to management regarding the possible employment of any individuals? How are possible conflicts of interest avoided in these situations?
- How often does the board meet? Where were the meetings held? How much are directors paid for attending the meetings? What perks do directors receive?
- Does the company indemnify directors in the event litigation arises which relates to possible conflicts of interest or negligence of the board?
- How many directors are women or minorities? What actions are being taken to ensure that more women and minorities are represented on the board?

- What factors are considered in the selection process for the chairman of the board? When does the term of the chairman expire? How are replacement candidates identified and evaluated?
- Has the board considered separating the roles of chairman of the board and chief executive officer?
- Did the board disagree with management on any issues? What were they?
- Does the board play a significant role in strategic planning? If a significant shift in strategy is contemplated, is the board consulted before final decisions are made?
- What was the attendance record of each director at board meetings and board committee meetings last year? Why has Director A missed X meetings?
- Why aren't there more independent directors on the board?
- Why did Director B resign? Have any other directors resigned since the company's year-end?
- Why isn't Director C slated for re-election this year?
- Are all directors stockholders? Does the company encourage directors to own shares in the company?
- Did any directors buy or sell significant amounts of company stock during the year? If so, then why? Given the outlook for the company's future, why did these directors sell or buy stock?
- Did any board member abstain from voting as a result of a conflict of interest? If so, then what were the circumstances? What can be done to avoid conflicts in the future?
- Did independent directors review and sign the annual report filed with the SEC? Did any directors refuse to sign?
- Are any of the directors also board members of companies who either compete or do business with the company?
- Are there separate boards of directors for each subsidiary? Are the separate boards encouraged to

act independently from the parent company? Are the costs or benefits of separate boards justified?

- Are there any age limits imposed for serving as a director? If not, then why not?
- Do any directors provide consulting services to the company? If so, then why? What services are provided? What are the fees? Are these services compatible with their directors' responsibilities? Should such services be prohibited in the future?

Relationship with independent auditors

- How are the independent auditors selected? Does the audit committee have the ultimate authority to select, evaluate and, where appropriate, replace the outside auditors?
- What factors are considered in the evaluation of whether the external auditors are independent?
- Do the independent auditors provide non-audit services to the company? What is the nature of these services, and how much has been incurred in fees? Does management believe these non-audit services are compatible with the auditors' responsibilities?
- Is the unaudited interim financial information that is included in the company's quarterly reports filed with the SEC on Forms 10-Q or 10-Q-SB reviewed by the external auditors before it is filed?
- Were there any disagreements with the independent auditors that arose during the year, or were issues discussed with them that relate to management's integrity? If so, then what were they? Were they brought to the attention of the board of directors or audit committee, and how were they resolved?
- Why were the independent auditors changed last year? What criteria were used to select the current auditors?

- Do the independent auditors report on the adequacy of the company's internal control? If not, then why not?
- What were the results of the independent auditors' latest peer review?
- Did the independent auditors provide advice and assist in reviewing the financial statements of merger candidates prior to their acquisition during the year?
- Does the company use accountants other than the independent auditors for non-audit services? If so, what did these services involve? Were the independent auditors informed if other accountants were consulted on issues that might affect the company's accounting or financial reporting?
- Why are certain subsidiaries, divisions or segments audited by firms other than the principal auditing firm? Does the principal auditor take responsibility for the audit work performed by others?

Stockholder relations

- Who can stockholders contact to obtain current information about the company? Does the company maintain a Web page that provides helpful information to investors?
- Does the company maintain frequent contact with analysts who follow the company? Does the company have an investor relations function?
- What is the total number of stockholders? How many institutional investors own shares in the company, and what percentage of the total shares outstanding are owned by institutions? Have these institutions suggested any changes to management personnel, operations or governance of the company?
- Is any of the information contained in interim and annual financial statements discussed with company analysts before the information is

made available to the investing public?

- What procedures has the company implemented to prevent trading of its stock based on inside information?
- Why did the market price of the company's stock fluctuate so dramatically compared with shares of its competitors?
- Which analysts are recommending the company's stock? Do they have investments in the company? Have there been instances of unusual trading volume in the company's stock? What caused this?
- Who are the principal stockholders? Did anyone acquire a significant interest in the company recently? If so, what are their intentions? What is management's reaction to this?
- Is stockholder approval required for business acquisitions and divestitures?
- Do individual stockholders receive the same information as institutional investors? Is the information communicated to all investors at the same time?
- Can a summary of significant matters discussed at the annual meeting be distributed to stockholders?
- Were there any proposals submitted to management for inclusion in the proxy statement that management decided not to include? Why were certain issues omitted from the proxy? Why doesn't the company permit confidential voting by stockholders with an outside party tabulating the results?
- Has consideration been given to cumulative voting for the election of directors? Has consideration been given to staggering the terms of directors? How does this impact shareholder value?
- Why doesn't the company include the Form 10-K as part of the annual stockholders' report?
- Why doesn't the company send quarterly financial information to stockholders?

- Has the company considered any revisions to common stock voting rights? Has the company considered issuing other classes of common stock with rights and privileges different from those accorded to the company's common stock? What would be the benefits of such a class of stock?
- Has the company had any difficulty maintaining its stock exchange listing?

Social and environmental responsibilities

- How does the company monitor its environmental risks? How much will remediation cost, and are these amounts reflected in the financial statements? Is the company insured for such claims? How confident are you that the company's insurance carriers will agree and be financially able to reimburse the company for losses related to these matters?
- What are the company's procedures for addressing the risks associated with hazardous chemicals, and how is toxic waste disposed? Are any of the company's products considered carcinogenic? How are employees protected from dangerous chemicals? How does the company's safety record compare to similar companies?
- Does the company recycle its waste and manufacturing by-products? If not, then why not?
- To which organizations were charitable and political donations made this year? How much was donated, and what criteria are used to determine which organizations receive donations?
- Does the company have a political action committee (PAC) and, if so, what is its purpose, how is it administered and how are funds raised? What issues does the PAC support?
- Has the company implemented mandatory drug testing in the work-

place? If not, then why not? How have the employees or their unions reacted to testing by the company?

- Does the company maintain a smoke-free environment for its employees? If not, then why not?
- Does the company have operations in, or trade with, countries that violate basic human rights? If so, how does the company reconcile its actions with public opinion?
- Do the company's manufacturing operations comply with environmental laws? Is the company subject to any Environmental Protection Agency actions?
- What are the company's equal opportunity policies? Does the company support quotas? What percentage of employees at each employment level are women, minorities and physically challenged? Why aren't there more women and minorities in management?
- What are the company's policies for maternity leave? Does the policy include paid leave for fathers?
- What policies does the company have to prevent sexual harassment? How are the policies monitored? What course of action is taken if an employee or officer is accused of sexual harassment?
- Does the company provide child-care services for its employees? How are the benefits and costs of this program assessed?
- What is the company doing to improve the quality of public education in the communities in which it operates?
- Were any of the company's products recalled for safety violations? Are there any legal issues related to the recall?

Litigation

- What matters are currently being litigated? What is the likely outcome? How will the company avoid repeating the circumstances that originally caused the litigation? If

the company is a plaintiff in any actions, what are the damages claimed and how long will it take to resolve the suits?

- Has the company considered including alternative dispute resolution clauses in contracts and other agreements with its customers, suppliers and employees?
- What expenses were incurred for legal fees, and what amounts were paid in settlements this year and last year? What legal services were provided and by whom? Were any legal fees paid to lawyers who are on the company's board? How are potential conflicts of interest identified and monitored?
- Have any in-house or outside attorneys resigned or been terminated by the company during the last year? If so, what were the circumstances?
- Has the company taken any legal actions to protect its patents, trademarks and other proprietary property?

Other

- Is the company having difficulty obtaining general liability insurance or other insurance for directors and officers?
- What risk management techniques are used to evaluate the adequacy and cost effectiveness of insured risks? What is the limit of the

company's product liability and catastrophic loss coverage? Does the company have a risk assessment committee?

- Have any new competitors entered the company's markets? How has the new competition affected the company's strategic planning? How did the company react to additional competition?
- How does the company maintain the quality of its products? What quality assurance procedures are currently in use? Are additional quality assurance procedures being considered?
- How have new products been received in the marketplace?
- Are members of management required to retire at a certain age? If so, what age? Does the retirement policy preclude those individuals from entering into consulting arrangements with the company? Has the company considered implementing, amending or eliminating its retirement policies?
- Why did specific managers leave the company? What termination benefits are being paid? Are they precluded from establishing relationships with competitors of the company?
- Has the company formulated a plan to protect against the unauthorized use of trade secrets, know-how and other information by former key employees?

- What was the amount of fees paid to outside consultants? What services did they provide?
- Has the company invested in the debt obligations of any nation that is currently experiencing economic difficulties? Has credit been extended to Asian or South American companies? Are the loans denominated in U.S. dollars, and are any loans in default?
- Were any changes made during the previous year in the company's articles of incorporation or bylaws? What are the changes, and why were they made? Do the changes affect shareholder values?
- What investments are made by the company's retirement plan? How well have these investments performed?
- How does the company monitor the retirement fund's performance? Do the independent auditors perform an audit on the financial statements for the fund? Who sets the investment policy for the fund assets?

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A BDO Seidman, LLP partner customarily attends the annual stockholders' meeting of our publicly-held clients. If you would like our assistance in preparing for the annual meeting, please contact us.

Material discussed is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual circumstances.

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