



Financial Reporting

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Annual Stockholders' Meetings – Possible Questions

Preparing for the Stockholders' Meeting

2001 was an unforgettable business year in many respects. Top economists believed that since March 2001 we were in the middle of a full-blown recession. The Federal Reserve tried to keep the economy afloat by reducing interest rates to the lowest point in decades. However, the downward spiral in the overall economy was exacerbated by the events of September 11, 2001. At the beginning of 2002, we found ourselves in the throngs of another financial reporting meltdown precipitated by the Enron debacle. Not since the Stock Market Crash of 1929 has investor confidence in financial reporting been this low. In the midst of these events, although there have been some positive signals that the economy is on the road to recovery, this year's annual stockholders' meeting should be anything but mundane.

Management should be prepared to respond to stockholder concerns about these and other issues that may affect your company. Your company's annual meeting pro-

vides an excellent opportunity for you to address your accomplishments and plans for creating or maintaining shareholder value.

Stockholders are also likely to be concerned about company strategies, the stock market, the quality of earnings, the use of special purpose entities (SPEs) or other forms of off-balance sheet financing, participation in related party transactions, corporate governance, the role of your audit committee, executive compensation, financial controls, derivatives, management's philosophy about growing the business (including possible mergers or acquisitions), e-business strategies, any plans to restructure operations, employee health care costs, international trade issues, human resources management, and any other events and circumstances that may affect your company in the domestic and worldwide venues. The effects of these matters on your company should be carefully considered in preparing for your meeting.

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

BDO Seidman, LLP, is ready to assist you in anticipating stockholder questions and developing meaningful responses. 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 releases, the chairman's letter, other information contained in SEC filings, visiting your website, or from outside analysts' or rating agencies' reports.

Of course, stockholders are likely to ask questions similar to those of prior years, so you should also review 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 Company's Strategies in This Business Climate

Today, investors have turned their attention to how companies are planning to emerge from this latest economic downturn. Thus, investors will be looking at management's ability to implement short-term strategies to remain competitive during these tough economic times while planning for future growth. This balancing act in a period of reduced investments presents a number of challenges in allocating resources and planning

actions. Conversely, an economic downturn may present a number of opportunities to strengthen future operations: acquiring companies at reduced prices, expanding business through joint ventures and alliances, and reducing interest costs by refinancing high yield debt.

You should expect questions from stockholders 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 reduced 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 softening demand, and other "belt tightening" initiatives. They may also ask about new products and services on your drawing board or in your pipeline, and how management plans to compete in developing markets.

The Stock Market

With the recent volatility in the stock market, particularly in the technology sector, management of many companies will be focusing on ways to maintain or boost their stock prices. Stockholders are likely to be concerned about how your company's stock has performed over the recent past, both in relation to the overall market and to your competitors, and how you expect your company to perform during the remainder of 2002. 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 by as little as a penny a share, although there was no fundamental change

in the company's business or plans. The credibility of many management teams has been diminished by earnings "surprises," restatements, revised forecasts, and by concerns about the quality of earnings even when there have been no changes to the reported amounts.

Quality of Earnings

Over the past couple of years, the SEC has focused extensively on addressing the erosion of quality financial reporting through "earnings management" – that is, circumventing proper accounting by artificially accelerating revenues or delaying expenses in order to meet analysts' earnings and/or revenue expectations. In addition to various SEC enforcement actions, three Staff Accounting Bulletins were issued in late 1999 that set forth the staff's views on issues related to materiality, restructuring charges and revenue recognition. This was followed up recently with Financial Reporting Releases on pro-forma information, Management's Discussion and Analysis (MD&A), and critical accounting policies.

Based on the widespread publicity given the SEC's concerns, stockholders may ask questions about the quality of your earnings and revenue growth and the strength of your internal controls. In that regard, they may question the aggressiveness of accounting policies, the extent to which estimates are used, and whether non-recurring items are truly non-recurring. They may also ask questions about how the company and its analysts determine earnings expectations and, if deviations from those targets have occurred, how they are communicated. In an effort to stem complaints from individual investors about selective disclosures, the

SEC issued *Regulation Fair Disclosure* in 2000 to establish guidelines in the release of material, nonpublic information. Stockholders may inquire about the company's procedures in the distribution of such information (see further discussions on this topic in our publications, *Financial Reporting* – February 2001 "SEC Year in Review: Significant 2000 Developments" and February 2002 "Report on AICPA SEC Conference and Other Matters," which are available on our website at www.bdo.com).

Off-Balance Sheet Financing and Related Party Transactions

The Enron case has focused attention on the improper use of SPEs and other forms of off-balance sheet financing used to camouflage losses and debt. Similarly, using related parties in significant transactions has raised questions about the business purpose and fairness of such transactions. Thus, you can expect questions about these matters.

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. The Enron matter has heightened criticism of the current accounting rules for employee stock compensation and Congressional legislation has been introduced with the intention of forcing companies to charge

earnings for the fair value of the options granted. The repricing of incentive stock options (i.e., a reduction in the exercise price) has drawn an extreme level of criticism from stockholder advocacy groups. Be prepared to address the business reasons for such actions.

You should expect questions on any changes in compensation levels or plans 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 and "interlocks" among the board's executive compensation committee. Stockholders may also ask questions about what specific disclosures on compensation mean, how some amounts disclosed in the financial statements were determined, or how the amounts shown compare to industry norms. Directors' compensation arrangements, their attendance at meetings and the extent of their personal investment in the company may raise questions as well.

Financial Controls and Derivatives

Many forms of financial fraud 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 alert for signs of, and encouraged to report, suspected fraud without fear of reprisal.

The expanded use of derivatives is another area of concern due to their inherent complexities and their involvement in frauds in past years. Stockholders may ask about the extent of the company's use of derivatives, and how the company controls its derivatives' activities. If your company reports on a calendar year-end, the effective date for adopting the new accounting standard on derivatives was January 1, 2001.

If there are derivative contracts that fail to meet the hedging criteria required by the standard, such items are considered speculative and changes in a derivative's value are reported in earnings. Questions may be broached as to why the company is speculating and the associated impact on earnings if the derivative is ineffective or the counterparty to the contract is unable to fulfill its obligation. (An overview of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, is presented in our publication *Financial Reporting* – February 2001 "Year in Review: Significant 2000 Financial Reporting Developments" and a related publication is available through our web site at www.bdo.com).

Corporate Governance

The Congressional hearings on Enron have focused on the need for a strong ethical climate. Misappropriation of corporate funds by executives or others, questionable

transactions, non-substantive accounting practices, 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 investors, customers, suppliers, employees and others, and to comply with laws and regulations, including laws against sexual harassment and discrimination.

Audit Committees

Reflecting a key priority of the SEC, the major stock exchanges have adopted rules governing the composition, roles, responsibilities, and experience of audit committee members. This movement has certainly been emphasized by the criticism emanating from the Congressional hearings on Enron. Stockholders may inquire about the background, credentials, and independence of committee members and how they fulfill their responsibilities in overseeing the financial reporting and internal control processes of the company.

Mergers and Acquisitions

With the diminished volume of M&A activity, stockholders may focus on the status of integrating acquired companies, the synergies that have been realized or expected, and the prospects for pending or future transactions. The regulatory requirements, if any, that are necessary to consummate pending transactions may need to be addressed as well. Stockholders also may want to know if management is planning to achieve growth by acquiring businesses or if it is

receptive to acquisition proposals from others.

Also during the past year, the FASB issued Statements No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*. Collectively, these new Statements not only eliminate the pooling-of-interests method of accounting, but also significantly change the accounting for goodwill by ending its amortization and introducing a new complex valuation model to test it for impairment. All future business combinations will be affected, as well as goodwill and recognized intangible assets previously acquired. Those new Statements are discussed in detail in our publication, *Financial Reporting, "Accounting for Business Combinations, Goodwill, and Other Intangible Assets."* Stockholders may inquire if the company's philosophy regarding future acquisitions has changed due to the issuance of these new Statements.

With respect to announced divestitures, questions may be raised on the expected amount and use of proceeds by the company. They may ask how recent industry consolidations or planned transactions will affect stockholder value. They may ask whether management has erected any roadblocks to prevent corporate takeovers, such as "poison pills," "contingent dividends," or "stockholder 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, special dividends).

E-Business Strategies

Despite the fall from grace of *dotcom* companies among investors, the

Internet economy continues to grow as purchasing and selling on line is an efficient and accepted means of conducting business. For instance, virtually every established financial services firm has e-business capabilities for online transactions. Stockholders may ask how your company plans to take advantage of this technology and, if so, 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.

In addition, stockholders could inquire about the implications of the company's growing dependence on information technology and information systems to conduct its business, either on a business to business or business to consumer basis. You should also be prepared to address questions related to cost/benefit, security and privacy considerations, as well as training and education for workers displaced by technological changes.

Potential Restructuring Charges

With initiatives to reduce costs and create more efficient, competitive organizations, there have been many announced restructuring plans covering diverse industry groups. A number of these plans include substantial write-downs to

reflect asset impairments and restructuring charges (e.g., severance, facility closings). Some of these adjustments have been made with relatively little forewarning, and some companies have made these supposedly non-recurring charges more than once over the past few years. In addition, impairment write-downs may also raise questions if they coincide with changes in the composition of top management. The SEC staff has issued guidance on the accounting and reporting for restructurings in Staff Accounting Bulletin 100, *Restructuring and Impairment Charges*, and has increased their reviews of periodic filings from these “restructured” registrants. The SEC has taken action against companies that used restructuring accruals as “cookie jar” reserves to cushion recurring expenses.

Be prepared to discuss the rationale behind any charges that may have been made and whether your company has excess capacity, obsolete facilities, outdated technology, 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 value. (See discussion of this topic in our publication, *Financial Reporting – February 2000*, “SEC Year in Review: Significant 1999 Developments.”)

In addition, the FASB recently issued FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Stockholders may ask how this new Statement will affect the company.

(See discussion of this topic in our publication, *Financial Reporting – February 2002*, “Year in Review: Significant 2001 Financial Reporting Developments.”)

Health Care Costs

Rising health care costs are once again a real concern among companies. Stockholders may ask about the company’s current and projected employee health care costs, and any plans (including self-insurance) for controlling these costs, particularly if the company is paying all or a portion of the health care costs for retired and terminated employees. A dramatic growth in 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.

International Trade

Many foreign economies continue to be weak, including those in Japan, Eastern Europe, South America, and Russia. Emerging economies are addressing significant trade deficits and devalued currencies. As with our domestic economy, there has been a significant slowdown in economic growth in the G-7 group of countries that will have a direct impact on expansion plans in the marketplace. Stockholders 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 U.S. 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 of U.S. products and services more costly to foreign consumers especially in light of the relative decline in the value of the euro. If your company does business in Europe or South America, or competes with companies located there, stockholders may ask what effect changes in foreign currency exchange rates between these countries and the U.S. have had on the company. Stockholders also may ask about the effects of the unification of European currencies (i.e., the euro conversion), the effects of NAFTA, trade relations with China, the impact of animal and agricultural disease, or how the company protects its intellectual property in unregulated, overseas markets.

Human Resources

If a key senior officer is approaching retirement age, stockholders will be interested in succession plans and identification of likely candidates. The company’s efforts in retaining key managers and employees may also be reviewed. In that regard, questions may be posed as to company efforts to compensate employees whose stock options have become worthless. Stockholders may be concerned about the company’s exposure to labor problems, including contract negotiations and its ability to 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 corpo-

rate culture that promotes loyalty, which leads to productivity gains.

Risk Management

In order to survive and thrive, a company must seek growth opportunities, such as developing new, more complex product lines or expanding into broader markets. But such opportunities are often interwoven with a multiplicity of risks. While unavoidable, such risks are, to some extent, controllable. Along these lines, stockholders may question how the company's management identifies, assesses, and manages financial, operational, political, and other types of risk, including those involving derivative financial instruments.

The Future

Management's Plans and Strategies

- Does the company sell its products or services over the Internet? If not, 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 or is compromised? Does the company have a privacy policy regarding customer information?
- 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 who 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? What are the expected lead times and product life cycles? Are 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 the company increase its short-term borrowing arrangements with banks, if necessary, and how is the company's current relationship with its bank?
- Who are the company's major foreign competitors? Does the company have plans to address increased foreign competition? What are they?
- If labor rates are lower abroad, why hasn't the company moved operations to those locations?
- How will U.S. trade agreements with China affect the company's operations?
- Where does the company plan to expand its business? Has the company considered the impact of possible political and economic changes that may affect operations in these locations?
- What is the effect of the European agricultural and livestock blight on the company's operations and business plans?
- What effect does the weak state of the economies in Japan, Eastern Europe, South America, and Russia have on the company? Does the company expect any benefits or difficulties to arise as a consequence of these conditions? 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 stockholders? Why has or hasn't the company employed anti-takeover measures, and how does this impact stockholder value? Has there been any change in the company's philosophy toward future acquisitions since the issuance of Statements 141 and 142?
- Would the company consider plans to go private? How would this action affect current stockholders and creditors? If this action is contemplated, how would current stockholders be assured that they will receive a fair price?
- Does the company plan to offer early retirement or other termination incentives to employees to reduce costs?
- Who is next in line to succeed the CEO, Chairman, and CFO when they retire or otherwise leave the company? What is the likelihood of an external search?
- What are the major strategic and operating problems facing the company in the next five years? How does management plan to address these issues?
- 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 employee, union, and community concerns about jobs being eliminated through plant automation?
- Is the company making the best use of its computer system? Could any accounting operations, presently performed manually, be computerized? Could the costs of its information systems be reduced? Is management up to date on information technology changes and does it regularly evaluate the possibility of implementation of new technologies where warranted?
- Has the company outsourced any of its data processing, manufacturing, or other 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 it?
- What is the expected level of research and development (R&D) spending in the next few years? Has the company benchmarked its R&D spending against competitors? What and when are the new products and services 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? Are there any plans to alter the company's R&D efforts (that is, switching from in-house to partnerships / alliances)? What are the commitments under these arrangements?
- How does the company plan to take advantage of the bank-

ruptcy of competitor Y? Why did that company fail, and what measures is the company taking to ensure that a similar fate is not in store for itself?

- 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?
- 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 prime rate or the London Inter-Bank Offer 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 to maximize stockholder returns? How are the risks associated with the current debt load assessed?

- Does the company have or plan to obtain 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 issuing debt? Does the company plan to refinance any of its existing debt?
- Would the company consider obtaining additional financing 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?
- Did the company use SPEs that resulted in debt being excluded from its financial statements?
- 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?
- How will the elimination of the pooling-of-interests method of accounting affect the company's acquisition strategy?
- 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?
- What is the company's bond rating? Why was the company's credit rating changed, and what impact will this have on future borrowings? What steps are planned to improve the rating?
- Is it possible that the company will restructure its debts or file for bankruptcy protection? What effect would this have on existing stockholders, 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 stockholder value?
- Has the company considered adopting a dividend reinvestment program? An employee stock purchase plan?
- Has the company violated (or approached violating) any loan covenants that were imposed by lenders? If so, 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?

- Are there long-lived assets (e.g., goodwill, intangibles, fixed assets) whose values could be suspect given unfavorable operating results, adverse regulatory matters or other negative developments? Has management determined the impact on earnings that the adoption of Statements 142 and 144 will have?
- 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 or for FDA or other approvals to be obtained? What is the likely impact on sales and earnings if they are or are not obtained? When does the patent expire on Product X?
- How does the company protect the integrity of existing patents, technology, and intellectual property overseas?
- Are there any new or contemplated tax law changes that had an effect on the company in 2001 or will have an effect in future periods? (Consider Federal, foreign, and state laws.) 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 intercompany transfers between foreign and domestic jurisdictions? What is the likely outcome of that challenge?
- 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?
- 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 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 or any other regulatory body investigated the company or 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?

- Has the company developed a system to monitor compliance with the SEC's *Regulation Fair Disclosure* on the dissemination of material, nonpublic information?
- 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? What are the working conditions of employees or those of its suppliers (including children) who are based in developing nations? How does the company monitor its compliance with local and international standards or laws? Do company employees inspect the facilities of foreign suppliers? 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?
- 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?

Future Earnings

- What are management's plans for maximizing stockholder value in 2002 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 the best estimate of sales and earnings for this year and next?
- How does the company use information technology to help achieve competitive advantages? Does the company 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 those of its competitors?
- How is the company employing the Internet to improve efficiency, open new markets, or support continued sales to key

customers? How do competitors utilize the Internet in these areas?

- 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 stockholder 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?
- Are any changes in accounting methods contemplated? Will

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

- Does management agree with analysts' expectations for earnings in the next quarter and for 2002? 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 Matters

- 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 have alternate suppliers for key commodities, such as electricity and natural gas, that are essential to the company's processes? Does the company hedge price risks on the commodity?
- Does the company anticipate Company Z, 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 Z 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?
- Is the company susceptible to exposures arising from market risks and concentrations (e. g., major customers, products, geographical)? How does the company address these risks?
- 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?

Risk Management

- What is the company's attitude towards financial risks?
- Does the Board of Directors understand the implications of

the company's financial instruments, specifically derivatives (e.g., options, futures, forwards, caps, collars, interest rate swaps)?

- Does the company have written guidelines and policies on the use of financial instruments and derivative instruments? Who formulated those policies? Did the Board of Directors approve those policies?
- What guidance has the Board of Directors given management in developing a risk management system?
- What oversight role does the Board of Directors have to ensure the integrity of the company's risk management system?
- Is there a proper separation of duties between those who create financial risks and those who manage and control those risks?
- What types of financial instruments and derivatives does the company use?
- How are the company's financial instruments and derivatives valued?
- Is there a limit system in place (i.e., a system that sets the maximum amount of loss the company would tolerate before liquidating a position)?
- What are the major risks from the company's use of financial instruments or derivatives?
- Do management and the Board of Directors monitor the company's financial instruments and derivatives exposures?
- Have the company's derivative strategies changed as a result of adopting Statement 133?

Understanding the 2001 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, why?
- How has the financial position or earnings of the company been affected by the new accounting standard that requires 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? (See *Financial Reporting – February 2001 "Year in Review: Significant 2000 Financial Reporting Developments."*)
- 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?
- Why are certain assets and liabilities in the company's historical financial statements stated at fair values, 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," "comprehensive income," "accumulated other comprehensive income," and "minimum pension obligation" represent?

- 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 or surrender 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 valuation 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? How would the company fund the redemption of the preferred stock?
 - 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?
 - Does the company limit the amount of its own stock that may be held in retirement plans?

- 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?
- 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?
- Why did the company incur a deemed dividend or unusual financing charge as a result of beneficial conversion terms on convertible preferred stock or debt? Why did the company offer below-market conversion terms?
- Why does the company issue options, warrants, and convertible securities if such securities have the potential to dilute the interests of current stockholders? How do these actions increase stockholder value?

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 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?
- Has the company attempted to raise the prices of its products or services recently? Was this successful? If not, then why not?
- What were the major costs included in the company's restructuring charge? When is the plan expected to be completed? What are the estimated efficiencies and savings expected in future periods? Have the estimated efficiencies and savings from the restructuring been compared to actual results?
- 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 stockholder 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 2001 operations? What would be the impact on 2002 profits if additional foreign economies experienced difficulties this year?
- Were there any foreign currency exchange gains or losses in 2001 and in interim 2002 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? Has the company considered self-insurance to better manage 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 2001? How are expectations benchmarked?
- How much did the company spend on advertising in 2001? What are advertising expenditures expected to be in 2002? 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 the benefits or useful lives of any product questionable due to competition, patent challenges or expiration or other factors?
- 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 R&D costs for each of the last three years? Does the company spend more or less (as a percentage of sales) on R&D than its competitors? What new products were introduced in 2001 as a result of R&D efforts? Were any R&D 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)?
- If the company has had the benefit of utilizing net operating losses, when does the company expect to begin paying taxes or incur a "normalized" tax provision?
- 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, or on a relatively small number of customers or suppliers? Could this relationship adversely affect stockholder 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?
- 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 information 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 or any other taxing authority? Have any changes been proposed? What is the likely outcome of these challenges?

- Why did the company acquire Subsidiary X or invest in joint venture Y? 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? What was the business purpose of the transactions? Were the terms of the transactions at amounts approximating arm's-length or fair value? Who are the related parties? Why were related parties used? Are these transactions benefiting any specific stockholders, creditors, or others? Is the Board of Directors required to approve these transactions? Did it?
- Why were there significant adjustments to the reported earnings of the company during a particular period or quarter? 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 are SEC filings (Forms 10-K and 10-Q) filed on the last possible day or on an extended date?

- Will the company be able to produce annual and quarterly financial statements in sufficient time to meet the accelerated deadlines that have been proposed by the SEC (60 and 30 days, respectively)?
- Why does the price of the company's stock change 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?
- Does the company plan to issue additional incentive stock options to employees or other insiders? How much earnings dilution will existing stockholders experience, and what factors are considered in deciding how

many options are granted and at what price to which executives?

- Is compensation based on subjective factors, a specific formula, or other objective criteria? Are compensation awards effective in increasing stockholder 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 stockholder value? Are sales of company stock restricted by the plan?
- 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 underperformed the market, 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 deductible for income tax purposes? If not, 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?
- 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 perks are available to management? Are company airplanes, automobiles, club memberships, apartments, or other facilities available to executives for personal use? Is the

company reimbursed for the fair value of the personal use? How does this enhance stockholder value?

- Did the company pay for financial planning, tax, or legal services rendered to executives by its external auditors, attorneys, or others?
- Are management perks 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 performance? Why was or wasn't Company X included? Why has the company's stock underperformed 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 external, visit all of the company's locations at least annually?
- How does the company protect its internal systems and network from "hackers"?
- 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 external 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., management's report on internal control, risk assessment programs, codes of conduct, and internal audit functions)? If not, what actions are being considered that would be responsive to such recommendations?
- Are computer control activities reviewed by external auditors? What was their evaluation as to the adequacy of such control activities?
- 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

- How have the rules adopted by the SEC and the various stock exchanges to improve the workings of audit committees affected the company's own audit committee?
- Have any audit committee 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 management review the company's annual report with the audit committee? Do the external auditors discuss the quality of 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?
- Were the company's interim

financial statements and press releases reviewed by the external auditors and discussed with the audit committee before they were issued?

- 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 its budget for the coming year?
- Do the external or internal auditors have direct access to the audit committee? How many times did the external or internal auditors meet with the audit committee during the past fiscal year? Does the work of the internal auditors complement the work of the external auditors?
- 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 external auditors?
- Did the audit committee evaluate internal controls by reviewing the external 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 and external auditors instructed to report any illegal acts to the audit committee on a timely basis?

- 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 external 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

- What were the major areas addressed at the board level this past year?
- 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? Is the company's nominating committee comprised of outside directors to avoid a conflict of interest?
- 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? Are

any director's or officer's stock purchases or option exercises financed through a loan by the company? Can these terms be considered equivalent to arm's-length?

- Did any board member abstain from voting as a result of a conflict of interest? If so, what were the circumstances? What can be done to avoid conflicts in the future?
- Do directors sign conflict of interests statements prior to their appointments to serve?
- 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?
- What are the compensation arrangements for directors?
- Do any directors provide consulting services to the company? If so, why? What services are provided? What are the fees? Are these services compatible with their responsibilities? Should such services be prohibited in the future?

Relationship With External Auditors

- How are the external auditors selected? Does the audit com-

mittee have the ultimate authority to select, evaluate and, where appropriate, replace the external auditors?

- What factors are considered in the evaluation of whether the external auditors are independent?
- Do the external 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 the rendering of these non-audit services are compatible with the external auditors' independence? Does management plan to use the external auditors for non-audit services in the future?
- If the external auditors provide internal audit services, are the levels of such services in compliance with SEC requirements? Given the media attention to this area, will the company continue to use the external auditors for this work even if they are still permitted to do so?
- Were there any disagreements with the external auditors that arose during the year, or were issues discussed with them that relate to management's integrity? If so, what were they? Were they brought to the attention of the board of directors or audit committee, and how were they resolved?
- Were there any proposed audit entries that the company did not record? If so, why not?
- What percentage of the consolidated audit hours are provided by firms other than the principal external auditors?
- Why were the external auditors changed last year? What criteria

were used to select the current auditors?

- Do the external auditors report on the adequacy of the company's internal control? If not, why not?
- What were the results of the external auditors' latest peer review?
- Did the external auditors provide advice and assist in reviewing the financial statements of merger candidates prior to their acquisition during the year?
- Did the external auditors review the "pro forma" disclosures in the company's recent press releases?
- Does the company use outside accountants other than the external auditors for non-audit services? If so, what did these services involve? Were the external auditors informed if other outside 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?
- How significant are the fees paid by the company to the external auditors in relationship to their total revenues?

Stockholder Relations

- Who can stockholders contact to obtain current information about the company? Does the company maintain a Web site 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 do they own? Have these institutions suggested any changes to management personnel, operations, or governance of the company?
- 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?
- 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 stock-

holders 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?
- 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 is the company that their 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, 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 workplace? If not, 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, 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? Will damages, if any, from this matter be covered by the company's insurance carrier(s)? Are there any issues on coverage? 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?
- Does the company take steps to elicit feedback from customers on the level and extent of customer satisfaction?

- Given the focus on information privacy, does management have adequate policies and procedures in place to ensure that information collected about the company's customers, vendors, or other trading partners remains private?
- 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 com-

pany's articles of incorporation or bylaws? What are the changes, and why were they made? Do the changes affect stockholder 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 external auditors perform an audit of 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 each of our publicly held clients. If you would like our assistance in preparing for your annual meeting, please contact us.

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