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Questions shareholders will ask at 1983 annual meetings

Touche Ross & Co.
Questions Shareholders Will Ask at 1983 Annual Meetings

A range of questions, including –

- What litigation is the company involved in?
- How has the recession affected operations?
- Are pension plans adequately funded?
- What are the sales and earnings growth targets?
Each year, the National Accounting and Auditing Staff of Touche Ross & Co. issues an analysis of questions that could be asked at an annual shareholders' meeting of a public company. This year's questions reflect the most current concerns of the business community and include all kinds—some perennials, some new questions popular among activists, and others stemming from economic conditions as they specifically apply to a company. Naturally, the range and depth of questions will vary depending on the company, industry, financial condition and results, and other factors.

In all probability, no company will have to respond to each and every challenge mentioned in this booklet—but many business leaders have found it a useful precaution to work out the answers to all applicable questions in preparation for their annual meetings. Such a review helps identify which questions might be out of order if asked, and perhaps more importantly who should answer which questions.

No list of questions can be complete, and we have not attempted to cover everything. A clear articulation of management's plans, and a willingness to answer all valid questions openly, honestly and clearly is the best foundation for an effective, constructive annual meeting.

In keeping with our long-standing policy, Touche Ross representatives attend annual meetings of our publicly held clients. We are available to confer with both clients and nonclients on questions that might be directed to auditors, and we welcome the opportunity to assist the business community in identifying specific matters of importance to both management and shareholders.
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CORPORATE GOVERNANCE AND CONTROL

Board of Directors

The Board's responsibilities include overseeing of the company's management and operations. Shareholders' concerns may include questions about management compensation and perks, management succession, conflict-of-interest policy, and the process of setting corporate strategic policy, including mergers and acquisitions.

1. Why doesn't the company have a majority of outside directors? Does the company intend to obtain more outside directors? How are outside directors kept current on company developments?

2. Is there a nominating committee consisting of non-management members who select and recommend candidates for Board membership? What criteria are used in evaluating prospective Board members?

3. How many Board meetings were held this year? Last year? What is the attendance record of individual Board members? Do directors get paid their fee if they are absent? Why aren't all the directors at this annual meeting?

4. How much time do outside directors spend on company matters?

5. How active is the Board in the formulation and execution of corporate strategies? Were there any instances where the Board disagreed with management decisions? If so, what decisions and why?

6. Did any director abstain from voting on any matter when there was a conflict of interest? If yes, who and under what circumstances? Do any potential conflicts of interest exist with regard to any individual director? Does [director's] membership on [company] Board pose potential conflict-of-interest problems?
7. Do nonmanagement directors have independent access to the company’s legal counsel and independent accountants?

8. Did all directors sign the Form 10-K this year? If not, who did not sign and why?

9. Is the Board aware of, or has it approved, any related-party transactions? If so, under what circumstances? What is the effect on the financial statements of related-party transactions? Are any Board members or management involved in related-party transactions?

10. Are all directors also shareholders? Have any directors sold company stock during the year? If so, why?

11. What steps have been taken to insure smooth management succession?

12. Why isn’t there more representative membership of minorities and women on the Board? Why aren’t employees or the union represented on the Board?

13. Why did [officer/director] resign? What were the terms of the termination settlement?

14. Does the company grant cumulative voting rights for the election of directors?

15. What is the annual cost to the company for liability insurance it carries for directors and officers? What is the extent of coverage?

**Executive Compensation**

Executive compensation is an area of high visibility. Shareholders are concerned about receiving fair value for the related costs to the company. Accordingly, they will be interested in the relationship between company performance and executive compensation and in the process of how compensation levels are set. Of special interest in today’s environment are compensation payment provisions in employment contracts in the event of resignation or takeover of the company.

1. Why were certain executives paid so much? How does the company explain the relationship between executive compensation and
earnings, dividends or stock prices? What factors determine executive compensation increases or bonuses? Is there a ceiling on executive compensation?

2. How are changes in or new executive compensation plans approved? Is there a compensation committee composed of outside directors?

3. Do any officers have employment contracts? Do they exceed five years? If so, why? Do they provide for substantial payments in the event of resignation or a takeover of the company? If so, why? Are any retired officers being paid under contracts? Who? How much? For what services?

4. What was the total amount of executive expense allowances this year? Last year? How are they monitored?

5. What "perks" do executives receive [e.g., use of company automobiles, airplanes, apartments, etc.]? Is the company reimbursed for the fair value of personal, including family, benefits received? How are perks monitored?

6. What stock options have been granted to executives? Why aren't all employees eligible? How much common stock dilution could result from the company's stock option plans? Are loans made to executives to exercise stock options? If so, why?

7. Why isn't shareholder approval required for actions that materially increase the cost of executive compensation plans [e.g., profit-sharing and incentive bonus plans] or which dilute shareholder stock interest [stock option plans]?

8. What are the nature and terms of executive retirement benefits? Is there a ceiling on them?

9. How are executive incentive plans designed to achieve long-term goals rather than only short-term objectives?

10. Has the company made loans to company executives? If so, in what amounts? At what interest rates? For what purposes? Have company executives obtained loans at preferential rates from banks the company does business with?
Litigation

With the increasing variety and costs of potential litigation in corporate business affairs, shareholders are concerned about what legal issues might impair their interests and how management monitors and protects the company's legal risks.

1. What litigation is the company currently involved in? What is the total potential effect on the company's financial statements? What litigation was resolved or settled during the year? At what cost to the company? Has there been any change in the status of litigation since the annual report was issued?

2. What amount of legal fees were paid to the company's lawyers this year? Last year? To whom? For what services?

3. Are the company's lawyers instructed to inform the Board about known violations or possible violations of laws or regulations, whether domestic or foreign?

4. Are any of the company's outside lawyers also directors of the company? If so, how are fees paid to their firms monitored?

5. Has any lawyer employed or retained by the company resigned or been dismissed? If so, under what circumstances?

6. Is the company currently under investigation by any regulatory body? If so, what are the possible effects on the company's operations and earnings?

Social Responsibility

With the increasing effects of corporate decisions and activities on society and the environment, shareholders are interested in how corporations and their leadership consider and anticipate the effects of their decisions and actions. These issues may include the employment opportunities provided to minorities, the pollutive effects of waste disposal, etc.

1. How does the company monitor and control the social and environmental impact of its
operations and projects? Has the company been the subject of any actions or reviews stemming from the Environmental Protection Agency or other similar regulatory body? How does the company dispose of chemical/nuclear wastes at its [location] facilities?

2. What equal opportunity policies exist with regard to minorities, women, the aged, the handicapped, etc.? What are the results, specifically in numbers or percentages at each level of employment? What is the highest level of management occupied by minorities? By women?

3. What company policy exists with regard to dealing with countries that deny basic human rights? What about your [proposed] dealings with [country]?

4. How does the company contribute to the communities in which it operates?

5 What was the total amount of charitable contributions made this year? Last year? To whom? How did the company decide how to distribute the contributions?

6. Does the company have a political action committee? How much did it receive? To which candidates were contributions made? How much? How did the company decide how to distribute the contributions?

7. What steps has the company taken to promote energy and natural resource conservation?

8. What has been the impact on the employment level and the work environment of automation and integration of new technology into the company's operations? How has the company helped employees adapt to resulting changes?

9. What steps has the company taken to protect customers and employees from potentially dangerous exposure to company products and materials? Are there any possible cancer-causing components in company products? Are company products susceptible to sabotage? If so, what precautions have been taken? Is tamper-proof packaging appropriate? If so, how costly?
10. What is the company's policy regarding the content of television programming in which it advertises, especially violence? Regarding advertising aimed at children?

Internal Control

With growth, decentralization, and diversification in widely different markets and geographic locations, increased management attention to internal control is necessary to continue to adequately control company assets and their use for authorized and legal purposes and to insure proper recording of company transactions. Compounding the task is the need to provide for the security and integrity of increasing EDP operations.

1. Are the company's internal controls adequate to identify errors, irregularities or illegal acts? Were any defalcations discovered during the year?

2. Is the company in compliance with the Foreign Corrupt Practices Act? How does the company monitor compliance?

3. Does the annual report include a report from management describing its responsibility for internal control and evaluating the adequacy of internal control?

4. Are EDP controls adequate to prevent misappropriation of assets or misrepresentation of transactions in company records? Who oversees computer security? Are EDP controls reviewed by the independent accountants or internal auditors?

5. Has the company made illegal or questionable payments? What procedures exist to prevent and detect such payments? Are legal expenditures reviewed? How about executive expense accounts? Advertising expenditures? [Name] expenditures?

6. Does the company have a written policy prescribing illegal acts by employees? How is compliance monitored? Does the policy apply worldwide? As a matter of policy, is the Board informed of unusual or questionable payments?
7. How is compliance with company policies monitored overseas? Are agents used to conduct business overseas? How much was paid to them during the year? How does the company determine that the amounts paid were not used to make illegal bribes?

8. Does the company have a conflict-of-interest policy? Does it apply worldwide? How is compliance monitored?

Audit Committee

In today's turbulent economy the establishment and effective use of audit committees may be necessary to oversee the financial control of the company, especially as company operations become more complex and systems of internal control more sophisticated.

1. How often did the audit committee meet during the year? Last year? Are all members of the audit committee outside directors?

2. Do the independent accountants and the internal auditors have unrestricted and independent access to the audit committee? How often did they meet with the audit committee during the year?

3. Is the audit committee aware of any questions about or instances of illegal acts or conflicts of interest? If so, what are they?

4. Does the audit committee review the company's financial information before it is released to shareholders or the public? What procedures insure the propriety of interim reports?

5. How does the audit committee oversee the adequacy of internal control and compliance with the Foreign Corrupt Practices Act? How are members of the audit committee selected? What are the qualifications and background of individual members?

Independent Accountants and Internal Auditors

The internal audit function may be essential to the reliable recording and objective analysis of financial data, including both financial and opera-
WHAT DO CHIEF EXECUTIVES SAY MAKES AN ANNUAL MEETING SUCCESSFUL?

This question formed the basis of a survey conceived by Touche Ross & Co. and conducted by Directorship, the Westport, Conn. information service for directors. The comments of several corporate directors, along with those of a leading advocate of shareholder concerns, appear in the February issue of Directorship.

Following are selected excerpts from the comments collected during the survey.

“Our stockholders want to know why we are in a business, what the competition is, how much growth potential it has, how profitable it is. The shareholders want to have the kind of information we get as management . . . detailed reviews of the previous year’s operations are a bore to our stockholders.”

Robert Cushman, Chairman and CEO
Norton Co., Worcester, Massachusetts

“The caliber of questions from stockholders has improved because their economic knowledge has improved. The public is more sophisticated and as a result more intelligent questions are asked, making the question and answer period much more fruitful.”

Ronald Weber, Vice President
Crocker National Corporation, San Francisco, California

“You have to have good preparation . . . and you must provide enough content to inspire good questions. Probably the best assurance of a good meeting is good figures.”

Robert P. Straetz, Chairman and CEO
Textron, Inc., Providence, Rhode Island

“I try to meet ahead of time with people who are regular attendees, those who ask a great number of questions and take up an inordinate amount of time. They get a lot of questions off their chests then and there. It serves to cut down a lot of the time they would normally take up in the meeting.”

Alfred W. Van Sinderen, President and CEO
Southern New England Telephone Company, New Haven, Connecticut

“Frankness and candor of management in discussing the company, whether the results are good or bad, I think makes for a proper setting.”

Paul H. Henson, Chairman and CEO
United Telecommunications, Inc., Kansas City, Missouri
"We feel best when we have our full management team behind us at the meetings. Shareholders like seeing the management team there to answer questions."
William A. Andres, Chairman and CEO
Dayton Hudson Corporation, Minneapolis, Minnesota

"Show the stockholders some of your new product introductions, to get away from the normal facts and figures. We also have a small, informal reception after the annual meeting, where stockholders can have something light to eat, and talk on a more individual basis."
William F. Andrews, Chairman and CEO
Scovill, Inc., Waterbury, Connecticut

"Our meetings have been successful because a large number of the 200 to 300 people who attend are investment analysts, and we treat the meeting much like an analyst’s meeting."
Louis W. Cabot, Chairman
Cabot Corporation, Boston, Massachusetts

"We've always put on a presentation, using slides or movies, to review what we've done and what we haven't done, so that the meeting becomes an information program in which the company tells about the scope of its business and activities."
Willis A. Strauss, Chairman and Chief Policy Officer
InterNorth, Omaha, Nebraska

"One important factor is organization before the meeting, starting with the agenda and making sure the participants are fully informed. I've been to meetings that have been stumbled through, where there hasn't been a well-organized question and answer period, and it's very awkward. The shareholders deserve better than that."
Harry Stephenson, Chairman
Southern Bancorporation, Inc., Greenville, South Carolina

"We always contact the advocacy group in advance to find out what's on their minds and to discuss with them the issues, so that we can be prepared. We try to listen carefully to their point of view, even if we disagree with them. The objective is not to lose control. Prescreening and being well aware of the issues and problems is important."
Robert W. Lundeen, Chairman
Dow Chemical Co., Midland, Michigan

"The chairman has to have a great deal of tact in dealing with the audience. He should not allow himself to be intimidated, yet at the same time he should not exceed his authority. The trick at an annual meeting is not to make people twice as angry. Meeting beforehand with the chairman is good for the stockholders and good for the company, too. Stockholders don't want to be told, "I don't know the answer to that."
Lewis D. Gilbert
Shareholder Representative
tional auditing. Shareholders may be concerned about the competence and independence of the independent accountants and the extent of coordination between the internal auditors and the independent accountants.

1. How are the independent accountants selected? What criteria are used in their selection?

2. What were total fees paid to the independent accountants during the year? Last year? What portion of those fees related to non-audit services? What non-audit services were performed? Does their performance affect the accountants' independence?

3. Do the independent accountants or internal auditors review the company’s quarterly reports? Do the independent accountants or internal auditors report on the adequacy of the company’s system of internal control?

4. Do circumstances exist or have questions arisen that jeopardize the independence of the independent accountants?

5. Were there any disagreements between the company's management or Board and the independent accountants on any accounting or auditing issues? If so, what were they?

6. Did the independent accountants or internal auditor report any material weaknesses in internal control? If so, what corrective action has been taken?

7. Do the independent accountants or internal auditors have unrestricted access to all company records, assets and personnel?

8. What was the total cost of the internal audit department during the year? Last year?

9. At what corporate level is the director of internal audit? To whom does the director report? If not directly to the Board, why not?

10. Do the independent accountants and internal auditors visit foreign operations?
OPERATIONS

General
Since the value of shareholders’ investments depends on a company’s performance and financial position, shareholders are interested in a variety of performance and financial measures, trends and comparisons with those of others in the industry. With increased segment disclosures, shareholders may question the relative contributions made by certain business or product lines or geographic areas.

1. What caused the change in sales from the prior year(s)? How much was due to inflation? Volume? Acquired businesses? Businesses disposed of?

2. What caused the change in profit margin from prior year(s)? How much of the change was due to inflation? Why is operating profit different between business/geographic segments?

3. What portion of the company’s sales and profits comes from [name] business/product line? What is the company’s market share in this business/product line? What are the trends?

4. Who are the company’s major customers? Are any in financial trouble? What are the annual sales to them? What portion of the company’s receivables are overdue? How does that compare with prior years?

5. At what level of capacity is the company currently operating? Does it vary by business segment? What steps has the company taken to reduce overhead and operating expenses? Has the company discontinued any business/product lines or closed any facilities?

6. Does the company have adequate insurance coverage? What is the limit of the company’s product liability coverage? What risk areas are self-insured?

7. What were the total amounts spent on research and development and advertising during the year? Last year? What have been the results in
terms of new products and sales? What amounts are budgeted for 1983?

**Economic Environment**

Shareholders are concerned about what effects the severe recession has on the company and about management’s positioning of the company to weather the uncertain economic prospects ahead, including inflation.

1. How has the recession affected company operations? What action has the company taken to counteract its effects?

2. What is the general impact of inflation on the company’s operations? Explain the meaning of the inflation-related disclosures in the annual report.

3. After adjustment for inflation, how do the company's operating results (e.g., sales growth, return on equity, etc.) compare with its competitors? How do operating results in the company's industry compare with the economy in general?

4. What is the company's exposure to increased costs of or shortages for energy and materials/commodities? What alternative sources of supply exist?

5. Are all the company’s employees unionized? Did significant union contracts expire during the year? Next year? What effects on earnings will new terms have?

6. Why was [company] acquired? How do its operations fit with those of the company? What expertise in the acquired company’s industry does the company have?

7. What is the purpose of the company’s investment in [company]?

8. Why was the proposed merger/purchase/joint venture with [company] abandoned? What is the status of the proposed merger/acquisition of [company]?

**Political Environment**

With the increased effect of governmental monetary and fiscal policies on the economy and the
increased international scope of business activities, shareholders may question how specific government policies will affect the company's operations or how overseas political events or conditions will affect the company's operations there. Shareholders may ask about the company's or management's position with regard to a specific governmental policy.

1. What effects have governmental budgetary actions had on the company's operations? What proposed governmental actions are significant for the company? What portion of the company's sales is related to or supported by governmental programs?

2. What effect has governmental deregulation in [industry] had on the company? How will proposed deregulation affect the company?

3. Does the company support proposals to impose or increase tariffs on foreign imported goods in [industry]? Why or why not?

4. What are the effects on the company's operations of the current political situation in [country]? How would the proposed tariffs on [product] in [country] affect the company's sales and earnings from its exports to that country?

Financial Reporting

Shareholders interest in a company's financial position and results of operations is focused on the annual report. Each year the annual report may contain changes in reporting and disclosure that reflect changes in accounting requirements that occur to keep up with the changing business and economic scene. This year, shareholder questions may relate to accounting for foreign currency transactions and translation, as well as an interpretation of inflation accounting data that are included in the footnotes. In addition, shareholders may ask questions about year-to-year trends in specific balances or ratios.

1. Are the company's pension plans adequately funded? How will future salary increases affect the accumulated plan benefits? What interest
rate is assumed in making pension plan calculations? Why?

2. Explain the meaning of the foreign currency disclosure in the annual report.

3. Does the company follow any accounting practices for which alternatives exist? If so, what practices does the company follow? Why? Have any of the company's accounting methods been questioned by the SEC? Other regulatory bodies? The independent accountants? The financial press?

4. What items are included in the "other income" account in the financial statements? [Name] account?

5. Does the company use LIFO for all of its inventories? If not, why not?

6. Why was [name] accounting policy changed during the year? Why wasn't it applied earlier? What was the impact on profits? Did the independent accountants concur?

7. What were the reasons for the change in working capital? In [name] account?

8. Does the company use inflation-adjusted accounting for internal management control and evaluation purposes?

Financial Policies

A company's financial position becomes especially important in an economic downturn. Shareholders' concerns relate to management's response to economic conditions so as to maximize the company's investment returns and actions taken to strengthen a company's ability to endure the recession. Shareholders are also interested in how the company's financial policies affect the value of shareholders' interests.

1. What are the historical and target growth rates, after inflation, for sales and earnings? What is the target rate for the company's debt-to-equity ratio? Return on average total assets? Return on equity? Dividend payout ratio? Price-earnings ratio? How do they compare with others in the industry?
2. Why did the company declare a stock split/dividend? Is the company considering a stock split/dividend?

3. Has the company purchased any treasury stock during the year? At what price compared to the current market price?

4. Has the company entered into any off-balance sheet financing arrangements? If so, what are they and why? What amounts are involved?

5. What is the company’s bond rating? Has it changed recently? If so, why? How does it compare with others in the industry?

6. In what securities has the company significantly invested? Why has the company invested in [company]? What was the company's average yield on short-term investments during the year? Last year? Compared to inflation? Compared to the company's net return on equity?

7. Does the company hedge in commodity or financial futures? Why or why not? Does the company speculate in commodity or financial futures? Why or why not?

8. How does the company control its foreign currency exposure?

9. How will recent changes in interest rates and the stock market affect the company's financial position? Is the company planning any public issues of stock or debt? Has the company restructured any of its debt? Does the company plan to? Why or why not?

10. Was the cash flow after dividends sufficient to replace fixed assets at current costs and fund growth and new business developments? If not, what corrective action has the company taken?

11. What effect has the SEC's new “shelf registration” rule had on the company's financial policies or practices?

Taxes
In an ever changing tax environment, shareholder questions may relate to management’s tax planning and actions taken so that the company will
most benefit from the tax laws under which it operates.

1. What is the company's effective tax rate? Why is it different from statutory rates? How does it compare with others in the industry?

2. What was the total amount of taxes, other than income taxes, paid during the year? Last year? What were they?

3. What effect does the non-deductibility of dividends have on the company's dividend policies? Given the lower capital gains tax rate, has the company considered reducing cash dividends and instead repurchasing company shares on the open market?

4. Has the IRS proposed any significant tax adjustments? If so, what are they? What years remain under IRS examination? Has the IRS proposed any adjustment of the company's travel and entertainment expenses or employee fringe benefit costs?

5. What effect has the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 had on the company?*

Future Prospects

Given the general economic uncertainties and current recession, shareholders will be concerned about how management is positioning the company for flexibility and growth. Shareholders may ask for an evaluation of the historical and estimated future contributions of business/product lines and geographic areas as compared to competitors and as compared to other investment opportunities in the economy. Current concerns also relate to the highly publicized and prevalent merger and acquisition activities and how management and the Board have acted to protect shareholders' interests in this environment.

1. What are expected sales, earnings, dividends and return on equity for 1983? For the next

*For additional information see the booklet "Touche Ross Planning Strategies: Tax Equity and Fiscal Responsibility Act of 1982."
several years? How does the anticipated growth rate, after inflation, compare with the company's historical rate? Why is there a difference?

2. What were the sales and earnings for the first quarter of 1983? How do they compare with budgets?

3. In what segment of its business does the company expect its greatest growth? Its greatest profit contribution? In each segment, how do the company's growth targets compare to estimated growth rates of their respective markets? What are the projected market shares, sales and profit contributions for [name] product, division or business segment?

4. What does the company foresee with regard to interest rates in the near and long term? The stock market and the company's share price? How will this affect the company's financial practices? Are there plans to refinance any of the company's debt? Why or why not? What portion of the company's debt bears interest at floating rates? Are there plans to change that? Why or why not?

5. Compare the company's current backlog and inventory levels with those of the prior year. Why have they changed? What effect will they have on 1983 operations?

6. Describe any significant capital investment programs. New product development. Diversification programs. What is the company's hurdle rate on new investments?

7. How will the company use the proceeds from the sale of [name] plant or division?

8. Has the company deferred capital improvement or maintenance expenditures? If so, what effect will this have on future operations?

9. What is the company's projected growth in international markets? In what countries or geographic regions? In light of the recent GATT meetings, are further protectionist measures likely in those regions? How would they affect company operations and performance?
10. What is the company's policy with regard to (name) technology? What are the company's plans with regard to integrating (name) technology into the company's operations? What impact will there be on company productivity and performance?

11. Is the company a possible target of a takeover attempt? Why or why not? Have inquiries been received or solicitations made regarding any takeover attempt? Is management willing to support a takeover attempt? Under what conditions? What steps has the company taken to protect shareholder interests in the event of a takeover attempt? Do foreign investors own a significant portion of company stock? Other outside investors?

12. What is the company's philosophy on growth or diversification by acquisition or merger? Is the company considering any merger or acquisition soon? If so, what type of business? How would it benefit the company? How would it be financed?

13. What are the company's costs compared to its competitors? Why is there a difference? What are the company's plans to keep costs down?

14. What are the company's expected long-range requirements for energy, fuel, and (name) raw materials? How has the company secured future sources of supply? At what costs? Are alternative sources available?

15. What is the possibility of the loss of (name) customer (either corporate or governmental), due to business failure or purchase order cancellations? What would be the impact on sales and earnings?

16. What are the major strategic and operating problems facing the company in the near term? In the long term? How does the company plan to address those issues?

17. What competition does the company face from imports? What is the foreign competitive advantage? How does the company plan to respond? What is the company's position with regard to U.S. tariff controls in (industry)?