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Eisner LLP
Accountants and Advisors

CONCERNS ABOUT RISKS CONFRONTING BOARDS

First Annual Board of Directors Survey



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INTRODUCTION

With heightened awareness of the need for corporate governance, American boardrooms are immersed in increasingly intense discussions about the issues of risk and compliance. With these new concerns, directors of public companies are under the microscope more so than ever before. While financial risk remains paramount, all systemic risks lead to financial risk in one way or another. This survey explores not only financial risk, but the other important areas of risk being discussed in boardrooms, such as regulatory compliance and reputational risk, as well how boards gain insight on new topics of interest to their companies. The survey results along with our analysis are presented in this report. These insights could impact your thinking and, we hope, spur important discussions.

The executive summary outlines our survey results, but we invite you to read on to understand more about what we are hearing from board members. Risk and compliance are always hot topics. However with regulatory changes, the effect of the recession and an uncertain recovery still very much top of mind; these topics are commanding the agendas of boardrooms. We hope you find this report useful and that you'll share your thoughts and ideas with us.

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EXECUTIVE SUMMARY: KEY SURVEY FINDINGS

Our board of directors survey respondents identified their key concerns and risks. Analysis of results and Eisner's assessment of current industry trends result in four key findings, summarized below:

- **After growth and financial performance, boards have an increasingly long list of strategic topics to discuss.** Issues vary greatly from mergers and acquisitions and succession planning to healthcare reform and regulation.
- **Regulatory compliance is top of mind.** Survey respondents identified compliance risk as the next most important risk management topic discussed in their boardrooms.
- **Reputational risk continues to be a concern.** Directors continue to be concerned for their company's reputation in the market, in addition to their own personal reputation.
- **The need for an understanding of accounting and finance has increased.** Respondents see the need for more education on topics such as IFRS and the strategic effects of various internal and external accounting methods for both themselves and their executive management teams.

ABOUT THE RESEARCH

Eisner LLP's first annual Board of Directors Survey was designed to gain insight into the risks being discussed in American boardrooms. The directors were polled via a web-based survey sent to the Eisner database plus *NACD Directorship* magazine's subscriber database. The survey was conducted during the fourth quarter of 2009 and measures the opinions of over 100 directors serving on the boards of publicly traded and private companies, of which 50 percent serve on Audit Committees.

Eisner Intelligent Data (Eisner ID) uses proprietary market research conducted by Eisner and leading market research firms, along with analysis from Eisner's partners and principals, to produce insightful articles, events and data designed to educate and stimulate discussion on the issues of most interest to business leaders today.

The survey results were prepared by Eisner LLP, and are accompanied by the addition of Eisner's observations of industry trends and issues. While Eisner believes the information is from reliable sources, it should not be relied upon or considered to be investment advice.

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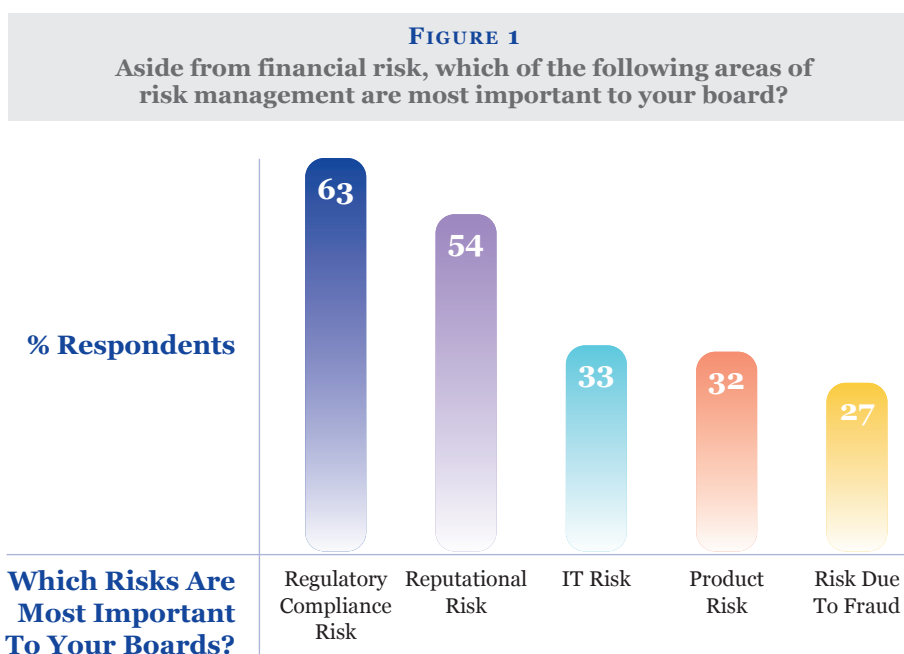
CONCERNS ABOUT RISKS CONFRONTING BOARDS

“We are seeing more and more directors interested in gaining information historically targeted to only the CFOs. The “new” director may not be new to his or her role, but is operating in a new environment with heightened risks for the company and themselves personally. We have seen directors reduce the number of company board positions they hold in order to increase their focus and reduce their exposure.”

Steven Kreit
Audit Partner
Services to Public Companies
Eisner LLP

Our survey respondents have provided a view into the latest boardroom thinking about risk. These directors say that the issue of faulty or incomplete regulatory compliance is the number one topic being discussed, outside of financial risk (Figure 1). This is not surprising given the degree of change, both proposed and enacted by the Obama administration and many state legislatures. President Obama can not take all the credit or blame for this focus, as the Wall Street crisis, the recession, and high-profile financial scams have boardrooms challenging management to work toward deploying risk mitigation strategies.

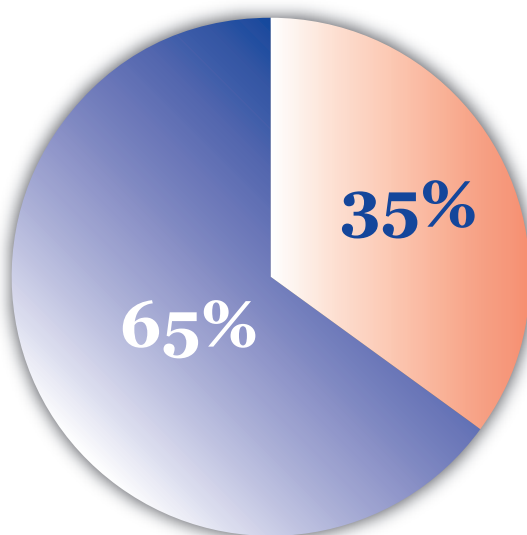
Reputational risk is always a concern and this survey reinforces it with 54 percent of respondents indicating it to be an important boardroom discussion. The widespread use of social media to spread information quickly contributes to this concern, as do re-energized concerns about privacy and security of data. Information technology risk is a pivotal contributor to reputational risk.



Note: More than one risk area could be chosen.

65 percent of survey respondents said the depressed economic environment is offering their company opportunities in mergers and acquisitions or other asset purchases (Figure 2).

FIGURE 2
Is your company considering M&A or other asset purchases?



“We are seeing an increase in M&A activity. Our corporate finance team’s workload is essentially an early indicator for increases in activity as companies enter into analysis and due diligence.”

Joel Barth
Principal
Corporate Finance Group
Eisner LLP

65% responded that M&A and other asset purchases are an investment opportunity

Given the economic environment, respondents had relatively low interest in the other investment opportunities:

New Investment Opportunities	% Responded Yes*
Commercial Real Estate	7%
IT Infrastructure	13%
Strategic Staffing	31%
Internal Growth & Expansion	36%

Note: Respondents could choose multiple answers

“Life in the boardroom has never been more complex. A director is challenged to stay up to speed on new regulations and the potential impact on the business as well as all of the other strategic issues at hand.”

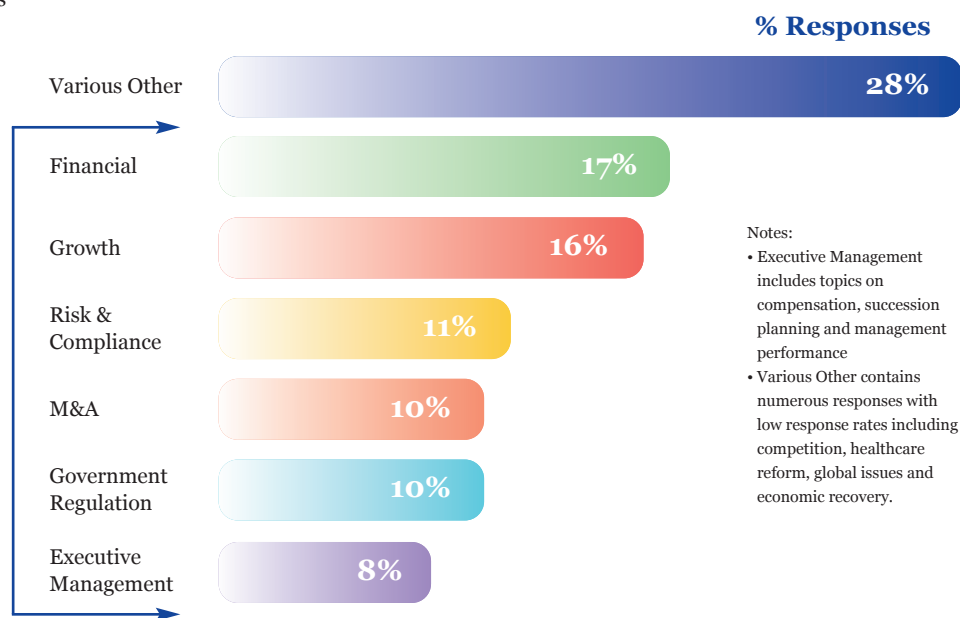
Michael Breit
Partner-in-Charge
Services to Public Companies
Eisner LLP

Perhaps this is a reflection of the cautious nature of companies today given the limited access to investment capital. The topics are indeed of strategic importance, but the current economic environment either does not make new investment more attractive at this time or has made investing riskier.

Our survey question on “the strategic topics being discussed” garnered a broad span of responses. The long list of their top of mind topics included: economic recovery, reputation, IT infrastructure/governance, healthcare reform, capital management, environment, global and competitive issues.

Six areas were mentioned most often by respondents as top of mind in the boardroom (Figure 3).

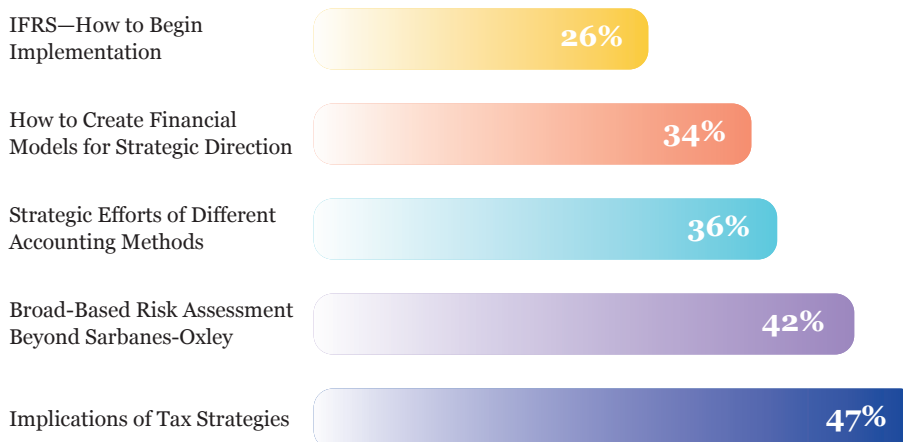
FIGURE 3
Six Strategic Topics Discussed Most Often in the Boardroom



As expected, financial topics were most prominent with 17 percent of the responses, including a variety of financial areas as the most strategic topics being addressed by their boards. The topics included: credit and banking, cost containment, cash flow, liquidity and bankruptcy. Growth concerns rank as a close second with 16 percent of the responses. They identified specific growth topics including strategy, diversification and deal evaluation.

When board members were asked if their executive management teams have a solid understanding of a selection of identified topics, less than 50 percent of respondents had confidence that their executive management team had a solid understanding of these topics (Figure 4).

FIGURE 4
Does your executive management team have a solid understanding of these topics?



Note: Percentages reflect “yes” responses

“This data causes us to wonder if the board felt differently five years ago. When times were somewhat simpler did directors feel their executive management team had a better understanding of the issues?”

Eric Altstadter
Audit Partner,
Services to Public
Companies,
Partner-in-Charge,
Long Island Office
Eisner LLP

So, where do board members go for new information (Figure 5)? Although skeptical of their companies’ management’s understanding of key topics, 63 percent of respondents rely on management for new information. Directors identified a reliance on trusted advisors as their primary source for new information (78 percent of respondents). Trusted advisors were identified as accounting, legal, and consulting professionals as well as professional or trade association members and their personal network. Publications and the internet continue to be a valuable resource to directors also with 58 percent of directors relying on these resources for new information.

“Boards have trusted advisors who remain invaluable whether they are a peer or an association contact or their professional service provider such as accounting and advisory firms.”

Jon Zefi

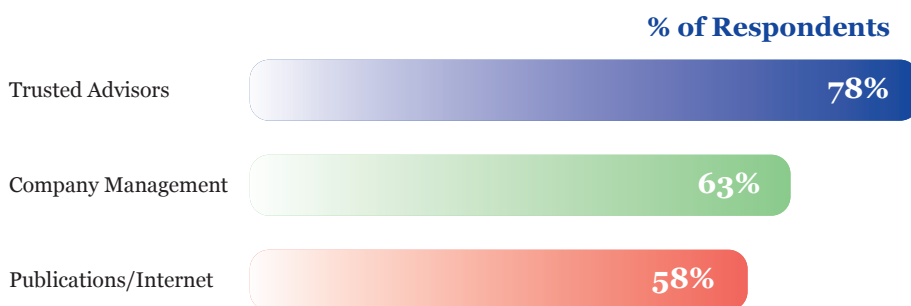
Principal
Tax Advisory Services
Eisner LLP

“It is not surprising to see broad-based risk assessment ranked as a key strategic topic among boards. Their concerns in this area continue to grow.”

Art Drucker

Partner,
Internal Audit and Risk
Management Services
Eisner LLP

FIGURE 5
Directors’ Primary Sources for New Information



Note: Most directors identified more than one source

The knowledge that directors seek is aligned with their perceptions of the biggest risks for their companies. Directors were asked to rank five areas as to where they had the most interest in seeking more knowledge. All five areas were seen as important with the top area being broad-based risk assessment (Table 1).

TABLE 1
Directors ranked in order from highest to lowest the areas of interest for gaining more knowledge/education

Areas of Interest for Directors	Interest Ranking
Broad-based Risk Assessment	1
Creating Financial Models for Strategic Direction	2
Strategic Effects of Different Accounting Methods	3
IFRS – How to Begin Implementation	4
Implications of Tax Strategies	5

Note: The mean of responses did not vary greatly.

RECOMMENDATIONS FOR RISK MINIMIZATION

The survey results enable Eisner's Services to Public Companies practice group to make several recommendations to address concerns and risks in the boardroom.

- 1. Increase board and management awareness of pending and recent regulations.** Current broad-based risk assessment is essential, and regular updates on pending and newly enacted regulatory changes in real time is recommended.
- 2. Reputational risk is ever present and can be affected overnight.** A solid privacy and security policy is essential to avoid unnecessary and unaffordable risks. With all eyes on cost and financial information, strategic expense reduction, including outsourcing, could bring on risks that are avoidable with proper processes in places. Personnel reduction and other cost cutting means require ensuring that processes originally designed to protect a company are not endangered.
- 3. Create a forum to bring to the surface new issues that could change a business model.** Trusted advisors bring a new view to boards and the management team that can help in minimizing risk.
- 4. Ensure management is constantly refreshing their accounting and financial knowledge.** Accounting rules continue to change whether for revenue recognition or the pending adoption of IFRS. Tax strategies are also greatly impacted by changing regulations. The changes have implications that impact the companies' operational performance as well as costs for non-compliance.

ABOUT EISNER

Eisner LLP is one of the premier accounting and business advisory services firms in the country. Founded more than 45 years ago, Eisner provides auditing, accounting and tax services to public and private firms across North America and internationally. The firm's primary concentrations are in services to public companies; financial services; technology, sports and media and personal wealth advisory services. Eisner audits over 80 public companies. Eisner also offers a complement of business advisory services in corporate finance, litigation consulting and forensic accounting, bankruptcy and insolvency, employee benefits, entrepreneurial and start-up services, internal audit and risk management among others. Eisner's clients, from individuals through mid-size companies to Fortune 500's all share a requirement for responsiveness that is the hallmark of Eisner's client service mission. Eisner's headquarters are in New York City with offices on Long Island, New Jersey and the Cayman Islands. Eisner is an independent member of PKF International. Visit us at www.eisnerllp.com.

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Michael Breit, CPA, CFE, is an audit partner at Eisner and leads the firm's TSM (Technology, Sports and Media) and Services to Public Companies practice groups. He is also a member of the firm's Executive Committee. Prior to joining Eisner, he was a partner at a Big 4 firm. Michael has extensive SEC experience and has been involved in the initial public offerings of several premier broadcast and cable TV operators. Michael has also participated in numerous due diligence efforts relating to the formation of programming ventures and acquisition of sports franchises. Michael possesses significant retail experience and has served many retailers throughout his career. As a Certified Fraud Examiner, Michael has led cable TV defalcation investigations and has served as an expert witness in several arbitration and litigation matters. An active community member, Michael serves as Treasurer and Director of WISE (Working in Support of Education), a leading New York City based non-profit dedicated to serving educational needs.



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Steven Kreit, CPA, is an audit partner with significant expertise in serving entrepreneurial growth companies across major markets, including health sciences, media and technology, and manufacturing. He has extensive experience auditing public companies and working with the SEC. Steven has assisted clients with initial public debt offerings and numerous registration statements, including drafting sessions with investment bankers, attorneys, and ensuring compliance with SEC rules and regulations. He has led numerous training sessions on critical topics including audit methodology and Section 404 of the Sarbanes-Oxley Act. In addition, he has been quoted in professional publications and contributes articles to Eisner newsletters. Steven is a current member of the SEC Practice Committee of the New York State Society of Certified Public Accountants. Previously, Steven was with a Big 4 accounting firm.