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COMMENTS - MAY, 2001

ACCOUNTING AND AUDITING

An environmental audit is a tool for assessing liabilities attributable to company generated pollution as well as for determining losses. However, since in many states the results may be used by enforcement agencies to prosecute offenders, companies are reluctant to undertake environmental audits unless required to do so. To resolve this problem, a number of states have adopted audit privilege laws guaranteeing immunity from prosecution for certain types of environmental infractions uncovered, provided the company takes steps to remedy the problem. Accordingly, a growing number of businesses are now opting for environmental investigation or audit engagements to assess possible environmental pollution being caused by their activities and to modify processes to prevent further damage. The principal areas in which these audits are being employed are:

1. Facility audits designed to identify sources of contamination at property sites.
2. Compliance audits intended to assess whether an operating entity is subject to any environmental regulations and to identify what permits a property must satisfy.
3. Risk-based audits to assess whether all sources of contamination are identified, all permits are in place and satisfied, and there are procedures for monitoring environmental problems.

As more companies seek to obtain certification for, and to adhere to such environmental standards as ISO 14000, there will also be an increasing need for independent environmental audits by the business community.

ADMINISTRATION, SYSTEMS AND EDP

Telecommuting initially sounds like a great deal for many employees since it offers great flexibility in work hours and enables people to handle family responsibilities while also maintaining regular employment. However, many people have found the experience less than satisfying because they have not carefully thought through important aspects of working from home. For example, they fail to assess:

1. Their discipline to maintain a regular work schedule, including starting and stopping times and lunch breaks.
2. The ability to deal with such distractions as children, TV and stereo and personal telephone calls which can destroy your productivity.
3. The adequacy of the space, lighting, furnishings, phone lines and special equipment necessary for maintaining a home office.
4. Special insurance needs associated with a home office and to determine the IRS requirements for deducting a home office are satisfied.
5. The availability of backup systems (computers, phones, peripherals, etc.)
6. A regular schedule of office visits to maintain face-to-face contact with co-workers and supervisors.

- # Although The Electronic Signatures in Global and National Commerce Act was enacted recently, making electronic signatures legal beginning October 1, 2000, don't expect instant acceptance. For one thing, there are problems with verification until there are standardized products and procedures on the market. Also, current attitudes about electronic signatures have to be modified. Under the law, for a document to be legally binding, someone must be able to authenticate it was electronically signed by the person who claims to have signed it, and the document cannot have been altered. Nevertheless, eventually electronic signatures will become commonplace because they should make it easier, faster and cheaper to conduct business on line. Among possible applications are electronic transmission of documents between financial service firms and governmental regulators such as the SEC; online insurance policy application and claims administration; automation of claims submission and payment, and ensuring secure access to patient records in the health care field; enhancement of supply chain automation in manufacturing, and acceleration of approval for new drug applications by Federal regulators. Over time human ingenuity will break down the current barriers about using electronic signatures and take us another step from the world of paper documents into the electronic world.

- # Should you lease or buy a company car? There are pros and cons for both which need to be sorted out to arrive at the best decision. Here are some of the advantages and disadvantages of these approaches:

For leasing	Against leasing
Lower monthly payments	No buildup of equity in the vehicle
Absence of a down payment requirement	Costly insurance requirements
Ability to obtain a fancier vehicle	Liability associated with early termination
Availability of extra cash for other	End of lease costs such as mileage purposes charges

For purchasing	Against purchasing
Establishment of an equity interest in the vehicle	Higher up-front cash outlay
	Higher monthly payments
Reduced insurance requirements	Unavailability of cash for other purposes

FEDERAL REGULATIONS

- # New SEC disclosure requirements will provide greater transparency for investors who trade on-line to determine how much commission was actually charged. For example, under the old rules, although the amount of the commission shown might have been low, if the broker transmitted the order to a market maker who charged an eighth or a quarter point per share more than the price available elsewhere, the commission charged was actually much higher than what appeared on the statement. The new rules are to become effective on April 1, 2001.

INSURANCE

The high incidence of car theft and huge settlements paid to accident victims have escalated the cost of automobile insurance far beyond the rate of inflation. Now, however, in many states, automobile insurance costs are dropping between 4% and 5% due to increased competition from providers. Therefore, this is a good time to comparison shop and to review your automobile coverage to take advantage of a variety of cost-cutting measures. For example:

1. Various insurers offer discounts of 10% or more on comprehensive coverage or discounts based on mileage for drivers who car pool rather than drive their own cars to work.
2. Discounts of 5% to 15% are available for full-time high school or college students who are drivers and maintain good scholastic grades such as a B average or better.
3. Families with drivers of college age who attend school more than 150 miles from home without a car may get discounts of up to 20% on comprehensive coverage and other insurance premiums.
4. Both new drivers and senior citizens who take driver training courses can obtain discounts of up to 20% on comprehensive and other insurance premiums.
5. Owners of vehicles with automatic seatbelts or airbags are entitled to discounts of up to 15% on comprehensive coverage and up to 30% on the cost of medical coverage.
6. Discounts of 10% or more from comprehensive coverage premiums are available when a vehicle has an alarm system or other theft restraint mechanism.
7. Some insurers offer discounts of as much as 20% when a car is garaged or the amount of use is limited.

The discounts are not available everywhere and insurers have different discount policies. So it's advisable to shop around to obtain the best deal. Also, inform automobile insurers whenever you change cars, add or eliminate drivers in the family, change the use you make of a vehicle or decide to add or drop coverages because of the age of the vehicle (it's generally recommended that collision and comprehensive coverages be dropped once the premiums exceed 10% of the car's blue-book value) or changed circumstances.

LABOR RELATIONS

Private companies are usually at a disadvantage when it comes to competing for executive talent with publicly-held firms which can offer generous stock options. Nevertheless, companies that can devise a compensation package which treats the executives as though they had an ownership interest in the firm are often able to attract and retain talented individuals. Usually the pay package in these circumstances should provide for:

1. Deferred compensation, where the amount of the deferral is contingent on performance criteria such as company profits.
2. Additional deferred compensation to enable the executive to obtain added retirement benefits in excess of those provided by the Internal Revenue Code.

3. Disability protection for the executive and the family that can be funded by purchase of long-term disability insurance.
4. A death benefit which is funded with life insurance.

There is no pat formula which can be used to achieve the desired result. Instead, the details of how this kind of a pay package is to be arranged will depend on tax considerations, financial needs of the executive, the cash flow of the employer and the terms the parties have negotiated. We often play an important role in the satisfactory conclusion of executive compensation arrangements by privately-held companies and their key executives.

MARKETING

Despite all the publicity about the Internet, most small businesses continue to shy away from E-commerce. According to the National Federation of Independent Business, only 16% of small businesses currently have a website even though 83% are connected to the Internet. Of those small businesses which have a web site, only 45% use it to buy or sell goods or services. In effect, only about 7% of small businesses are actively marketing online. A major reason for their reluctance is all sales are made via credit card and since it's impossible to verify the identity of the party initiating the transaction, the firm could easily become the victim of a fraud. Conversely, small businesses are reluctant to make purchases online because of the inability to examine what they are purchasing, and because they have no way of establishing the legitimacy of the vendor. Until these issues are resolved in a satisfactory manner, they will continue to be an impediment to the growth of E-commerce.

MONEY, BANKING AND CREDIT

Did you know each state and 49 major cities have a special check routing code. The code is a two-digit number which appears immediately in front of the issuing bank's code. By checking the routing code you may spot a check that's been forged and reject it. A list of routing codes is available from most banks.

PENSION AND ESTATE PLANNING

The Consumer Federation of America says more than half of U.S. households have saved insufficiently to provide for an adequate retirement. This is borne out by the fact 59% of people who were asked, indicated they expect a decline in their living standard in old age. Here are some of the facts to support the Federation's conclusion:

1. Only 23% of households with incomes between $10,000 and $25,000 will have retirement savings. Even 46% of households with incomes between $50,000 and $100,000 will have inadequate savings for retirement.
2. About 76% of those who don't participate in an employer-sponsored retirement plan will have inadequate retirement assets, and even 45% of those who do participate will fall short.
3. Among the 45% of respondents who indicated they had developed a financial plan, over half were convinced they would have adequate assets for a

comfortable retirement. Conversely only 23% of those who did not have a financial plan had this expectation.

We believe this is an urgent issue for most people. Therefore, we strongly urge those who have not developed retirement plans and who are not setting aside funds for retirement to visit us as a first step towards gaining peace of mind for one's later years. It's never too soon to get started.

PERSONAL FINANCIAL PLANNING

Many brokers have instituted commission-free trading plans which let you pay a flat fee or a percent of your assets in exchange for an unlimited trading privilege. If you are considering signing up for this type of service, you should be aware of some tax considerations. Under a normal commission arrangement, when you buy a stock the commission is added on, increasing your basis. When you sell, the commission you pay reduces your proceeds. The effect is to reduce your gain or increase your loss. It's tantamount to the IRS paying 20% of your commission. Under a commission-free trading plan, the fee paid is a miscellaneous expense. This is only tax deductible to the extent your miscellaneous expenses exceed 2% of adjusted gross income. For most higher income taxpayers this means they lose the deduction for the fee paid to the broker.

REAL ESTATE

If you are a young person looking to buy your first home and you are having difficulty in making the down payment, consider utilizing IRA money for this purpose. First-time home buyers are exempt from the 10% early-withdrawal penalty which applies to withdrawals from IRAs prior to age 59 ½. The maximum penalty-free withdrawal is limited to $10,000 and the IRA owner, the spouse, any child or grandchild or ancestor of the IRA owner could qualify as a first-time home buyer. The regulations also allow anyone who has owned a principal residence for less than two years to qualify. We'll be glad to elaborate and help you take maximum advantage of tax breaks affecting home ownership.

TAXATION

The IRS recently reported 2.4 million married taxpayers filing joint returns in 1999 gave incorrect names or information numbers for one of the spouses. Since this mismatch can jeopardize the Agency's acceptance of their tax return, especially if filed electronically, the IRS will be contacting about 2 million taxpayers about the names and taxpayer I.D. numbers being used. The Agency also says in the future it will disallow personal exemptions and other tax benefits claimed for any person whose name does not match his or her social security number on the tax return. Women who have changed their names because of a recent marriage or divorce might be particularly at risk, and would do well to obtain an updated social security card from the Social Security Administration by filing Form SS-5.

The tax burden on upper income taxpayers keeps growing. According to data from 1998 returns just released by the IRS, the top 1% of filers paid 35% of income taxes and earned 18 1/2% of all adjusted gross income, and the top 10% paid 65% of all income taxes even though they only earned 44% of all adjusted gross

income. In turn, the bottom 90% of filers paid just 35% of all income taxes, similar to the top 1%. To be in the top 1% of taxpayers you would have needed an adjusted gross income in excess of $269,496 in 1998, and to be in the top 10%, your adjusted gross income would have had to exceed $83,220.