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2011 BDO BOARD SURVEY

EXECUTIVE SUMMARY

In the wake of the 2008 financial crisis, the subsequent bailout and the extended economic stagnation that has followed, the expectation was that risk management would be priority number one for Corporate America moving forward. However, one only needs to look at the recent $2 billion rogue trading scandal at UBS to realize that business still have a long ways to go to when it comes to managing risk.

According to a new survey by the Corporate Governance Practice of BDO USA, LLP, most corporate directors at public companies understand that they need to do more to identify and manage risk in their organizations. More importantly, they see it as the area where they want to spend more of their time moving forward.

Board members also have definitive opinions on the implementation of two major components the 2010 Dodd-Frank Act and its impact on their responsibilities. Despite a great deal of criticism when the SEC announced its new whistleblower bounties, most directors do not believe the bounties will undermine their existing internal compliance programs, but they are very concerned with the likelihood of an increase in false allegations due to the SEC bounties. After experiencing the first proxy season under the Dodd-Frank "Say-on-Pay" disclosure rules, a strong majority of board members don't believe the rules help them in managing executive compensation.

These are just a few of the findings of The ***2011 BDO Board Survey*** which examines the opinions of more than 100 corporate directors of public company boards regarding financial reporting and corporate governance issues. The national telephone survey was conducted in August of 2011. Executive interviewers spoke directly to 101 board members for public companies with revenues ranging from $250 million to $750 million.

BDO USA CORPORATE GOVERNANCE PRACTICE

BDO USA's Corporate Governance Practice is a valued business advisor to corporate boards. The firm works with a wide variety of clients, ranging from entrepreneurial businesses to multinational Fortune 500 corporations, on a myriad of accounting, tax, risk management and forensic investigation issues.

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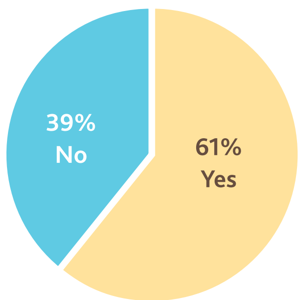
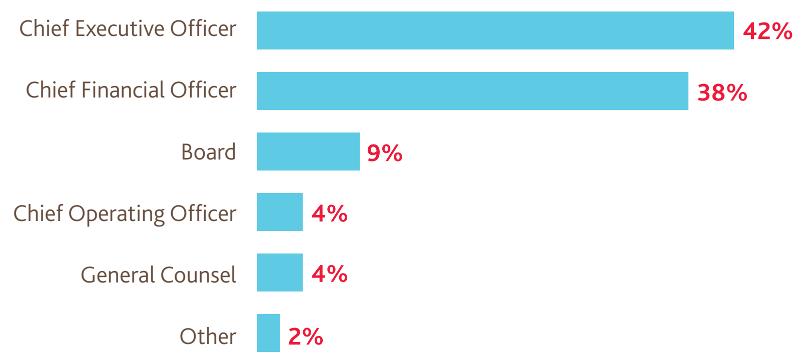
During the past few years, do you think your liability risk as a director has increased?



To whom does your Chief Risk Officer, or person with similar responsibilities, report?



"In recent years, the responsibilities of corporate boards have grown considerably and much of their time has been dedicated to responding to new regulatory requirements. Risk management has certainly played a role in those activities, but only from a compliance standpoint. What we are seeing in this study is a willingness of boards to take a more proactive role in risk management and it seems to be related to the risk they face as directors," says **Wendy Hambleton, Partner in the Corporate Governance Practice of BDO USA.**

RISK

The ongoing economic difficulties resulting from the financial crisis appears to have driven home the need for boards to manage risk more effectively. When asked what topics they would like to spend more time on, a majority (55%) of board members at public companies cite risk management, more than any other area. Moreover, an even greater percentage (61%) believe their liability risk as a director has increased during the past few years.

These concerns may be well-founded as more than one-half (53%) of the directors indicate their companies do not have a Chief Risk Officer (CRO), or a person with similar responsibilities, and two-thirds (67%) say their boards do not have a risk committee.

Of the 47 percent of businesses that have Chief Risk Officers in place, most report directly to either the CEO (42%) or CFO (38%). By comparison, it is relatively rare to have them report to the Board (9%), General Counsel (4%) or Chief Operating Officer (4%).

Although only one-third (33%) of the boards have a risk committee, those with committees are overwhelmingly (90%) confident that they have qualified risk experts as members.

When asked which member of management is most helpful to board members in assessing and managing risk at the company, 44 percent cite the CEO, compared to one-third (33%) for the CFO. Other executive titles mentioned, include Chief Risk Officer (6%), General Counsel (4%) and Chief Operating Officer (3%).

WHISTLING AT WORK

Predictions that the whistleblower provisions contained in the Dodd-Frank Act would undermine existing internal compliance programs, appear to be greatly exaggerated according to the BDO Board Survey.

When asked their main concern, if any, with the SEC's new whistleblower bounties, more than three-quarters (78%) of the board members focus on the negative impact of increased false allegations. Forty percent cite the damage false allegations can have to a business's reputation and another 38 percent cite the cost, in both dollars and time, of responding to false allegations. A much smaller proportion (15%) identify the potential negative impact to internal whistle-blower programs they've previously put in place.

When asked specifically about the impact of the SEC whistleblower bounties on internal anti-fraud programs mandated by previous legislation, two-thirds (66%) of board members do not feel they will undermine the internal programs. However, a similar amount (68%) of directors are in favor of legislation that would require whistle-blowers to report complaints internally in order to collect any reward from the SEC.

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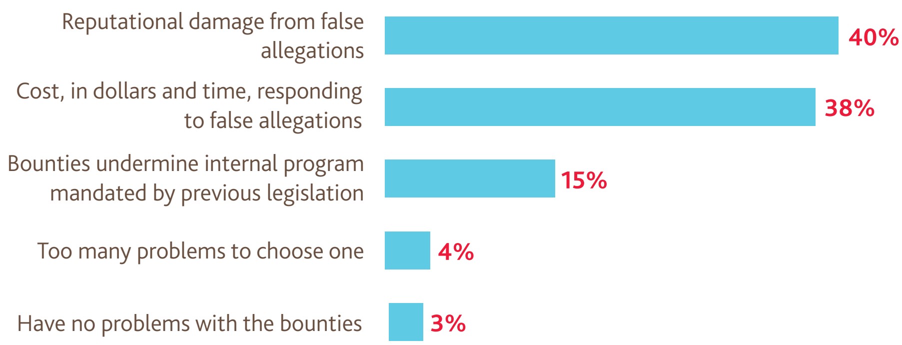
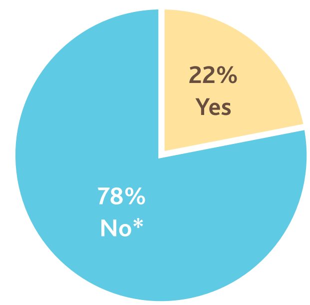
What is your main concern with the new "whistle-blower" bounties recently enacted by the SEC?



Do you feel the new Dodd-Frank "Say-on-Pay" disclosure rules will help you better manage the compensation of your key executives?



** Compensation committee members (91%) were the most likely to say the Say-on-Pay rules are not helpful.*

Subsequently, the SEC has announced that it is planning to offer whistleblowers who report their concerns internally first higher payouts than those that don't.

"The new Dodd Frank Whistleblower rules, which became effective last month, present several challenges to our corporate clients," said **Glenn Pomerantz, Partner at BDO Consulting.** "Whistleblower hotlines have been a strong tool for fighting fraud and a weakening of this mechanism would be unwelcome news for directors. It's refreshing to see that directors do not anticipate bounties undermining anti-fraud compliance programs. The feelings among compliance professionals have certainly been mixed on this issue. It is certainly understandable why directors support a mandate for whistleblowers to use internal programs prior to alerting the SEC."

▶"SAY-ON-PAY"

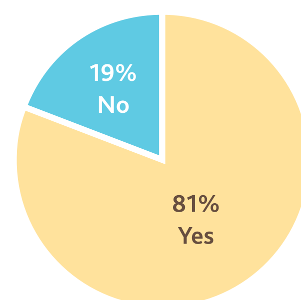
During the 2011 proxy season, a number of provisions from the 2010 Dodd-Frank Act – aimed at broader disclosure of executive compensation practices – became effective, including a mandatory non-binding shareholder vote on executive compensation.

According to The Conference Board, less than two percent of these "Say-on-Pay" votes resulted in negative votes. ***The 2011 BDO Board Survey*** reveals that corporate board members at public companies found the new rules wanting.

More than three-quarters (78%) of board members do not believe Dodd-Frank's "Say-on-Pay" disclosure rules will help them better manage the compensation of their key executives. In fact, just one-fifth (22%) describe the rules as helpful. Directors who serve as members of their board's compensation committee were even more likely (91%) to say the new rules will not help manage executive pay. Moreover, an overwhelming majority (81%) of board members believe shareholder criticism of executive compensation frequently suffers from 20/20 hindsight.

Less than a fifth (19%) of directors perceive the disclosure of change-of-control provisions in executive compensation packages, mandated by Dodd-Frank, as having a negative impact on M&A activity. In fact,

Do you feel shareholder criticism of executive compensation frequently suffers from 20/20 hindsight?



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Would you like your board to spend more or less time on each of the following topics?

Topic	More	Less
Risk management	55%	45%
Succession planning	54%	46%
Industry competitors	50%	50%
Compliance and regulatory issues	36%	64%
Evaluating key company executives	36%	64%
Executive compensation	29%	71%

"Board members frustration with Dodd-Frank executive compensation mandates illustrated in these findings is consistent with what we have been hearing from our clients," said **Randy Ramirez, a Senior Director on Compensation in the Corporate Governance Practice of BDO USA.** "Compensation planning is now examined under a microscope on an annual basis, when businesses would benefit from a long-term approach. Pay practices advocated by proxy advisory groups often emphasize immediate pay-for-performance tie-ins, but performance does not always manifest itself on a yearly basis. There needs to be consideration for making smart investments, strategic shifts and other moves that do not lead to immediate measurable returns."

three-quarters (81%) indicate this provision will have no impact on merger activity. Members of compensation (91%) committees are even more confident that these disclosures will not adversely affect M&A activity.

Although most board members do not find Dodd-Frank helpful, they do not see the non-binding nature of the Say-on-Pay votes as a problem. When asked if the non-binding nature of the Dodd-Frank Say-on-Pay votes diminished their effectiveness, only a quarter (24%) of the directors agreed. Three-quarters (76%) feel the non-binding nature of the votes do not limit their effectiveness, and directors serving on their board's audit (85%) and compensation (79%) committees were even more likely to feel this way.

When asked about their own compensation as board members, more than two-thirds (69%) believe their compensation is commensurate with their responsibilities. Yet, almost one-third (31%) feel their compensation is lacking, given the increased responsibilities and workload brought about by recent regulatory changes. Board members serving on the compensation committee (39%) were more likely to feel their compensation needs to be enhanced.

▶TIME MANAGEMENT

Dodd-Frank's executive compensation mandates seem to have taken a toll on corporate directors. When asked a variety of topics they would like their board to spend more or less time on, 71 percent say they do not want to spend more time on executive compensation – no other topic elicited such a negative response. Evaluations of key executives (64%) and compliance/regulatory issues (64%) were the other areas where the directors believe they can spend less time.

Where do boards want to spend more of their time? A majority cite risk management (55%) and succession planning (54%) as areas where they want to dedicate more of their energies. Directors were evenly split (50/50) regarding the need to spend more time on studying industry competitors.

▶AUDITOR/BOARD RELATIONSHIP

The overwhelming majority (84%) of corporate boards describe themselves as "very satisfied" with the level of transparency management has with them. Another 11 percent are somewhat satisfied and only five percent describe themselves as dissatisfied with management's transparency.

This is especially true on accounting issues. Ninety-seven percent believe that management provides them with enough information on positions they are taking on key accounting issues. The board members are equally (97%) satisfied that their external auditor is providing them with their independent view on management's positions on these accounting issues.

More than three-quarters (81%) of directors indicate the audit committee and external auditor meet on at least a quarterly basis, with one-third (34%) reporting they meet with the auditor even more frequently. Yet, 10 percent of directors say the meetings take place twice a year and another 8 percent say only once a year. However, among directors who serve on audit committees, almost all (96%) indicate they meet with the external auditor at least once per quarter. Virtually all (94%) board members report their audit committees conduct private meetings with the external auditors in order to get the auditors assessment of management.

Almost three-quarters (73%) of board members report there have been too many changes to accounting standards and financial reporting requirements in recent years. Despite the pace of these changes, the vast majority (89%) of directors are comfortable with their ability to stay current on changes to accounting and financial reporting. Only a small minority (11%) indicate they are uncomfortable with their ability to keep pace with the changes.

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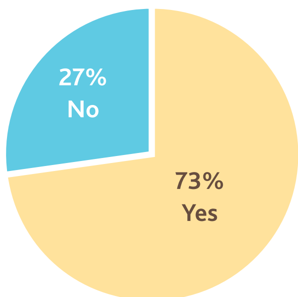
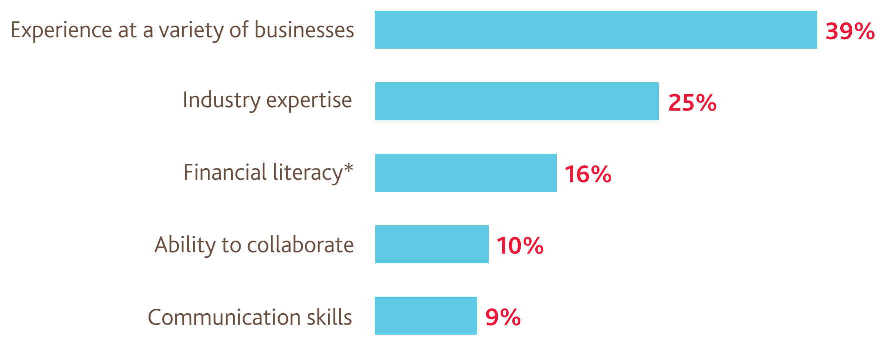
Do you feel there have been too many changes in accounting standards and financial reporting requirements in recent years?



What is the most important attribute for someone to be an effective board member?



** Audit (23%) and Compensation (22%) committee members were more likely to cite financial literacy as the most important attribute.*

BOARD EVALUATION

When asked to identify the most important attribute for a board member, among the commonly cited qualities are "experience at a variety of businesses" (39%) and "industry expertise" (25%). Financial literacy (16%), ability to collaborate (10%), and communication skills (9%) are other popular attributes cited. Financial literacy was more likely to be viewed as an important attribute by members of the audit (23%) and compensation (22%) committees.

When the directors were asked what capability was most lacking on their current board, more than a quarter identify the need for more industry expertise (28%) and one-fifth want directors with "a variety of business experience" (20%). Financial literacy (16%), communication skills (12%) and the ability to collaborate (9%) are also cited, but less often. Fifteen percent perceive their boards lack no important capabilities.

When it comes to evaluating other members of their board, two-thirds (67%) of the directors report they have a formal evaluation process in place for this task. Surprisingly, one-third (33%) of the directors indicate they do not have a formal evaluation process. When considering their fiduciary responsibilities, almost all (95%) directors indicate they are comfortable with the qualifications of their fellow board members, with close to three-quarters (73%) saying they are "very comfortable."

ABOUT THE SURVEY

The ***2011 BDO Board Survey*** examined the opinions of more than 100 corporate directors of public company boards regarding financial reporting and corporate governance issues. Executive interviewers spoke directly to 101 board members for public companies with revenues ranging from $250 million to $750 million. The national telephone survey was conducted by Market Measurement, Inc., an independent market research firm, on behalf of BDO USA. The survey was conducted in August of 2011.

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