



AMERICAN ARBITRATION ASSOCIATION

P R O U D P A S T , B O L D F U T U R E

75TH ANNIVERSARY 2000 ANNUAL REPORT

AAA  
75  
ANNIVERSARY

## OUR MISSION: A DEDICATION TO SERVICE AND EDUCATION

THE AMERICAN ARBITRATION ASSOCIATION IS DEDICATED  
TO THE DEVELOPMENT AND WIDESPREAD USE OF PROMPT,  
EFFECTIVE, AND ECONOMICAL METHODS OF DISPUTE RESOLUTION.  
AS A NOT-FOR-PROFIT ORGANIZATION, OUR MISSION IS ONE OF  
SERVICE AND EDUCATION.

WE ARE COMMITTED TO PROVIDING EXCEPTIONAL NEUTRALS,  
PROFICIENT CASE MANAGEMENT, DEDICATED PERSONNEL,  
ADVANCED EDUCATION AND TRAINING, AND INNOVATIVE PROCESS  
KNOWLEDGE TO MEET THE CONFLICT MANAGEMENT AND DISPUTE  
RESOLUTION NEEDS OF THE PUBLIC – NOW AND IN THE FUTURE.



*William K. Slate II, President and Chief Executive Officer*

## PROUD PAST, BOLD FUTURE:

As we celebrate our 75th anniversary, the American Arbitration Association has never been stronger or better positioned to fulfill a mission that becomes more important with every passing year.

The global appetite for conflict management services continues to expand steadily. The proof is in our caseload growth, the steadily expanding number of companies and governmental agencies adopting dispute avoidance and management programs, and an increasingly global economy that demands an unbiased, rapid, reliable, and effective conflict management infrastructure.

In 2000 – our sixth successive year of record caseload – we took innovative steps toward constructing what is quite literally a new paradigm for the design and delivery of conflict management services, one involving the extensive use of technology. At the same time, we put in place the final building blocks for a long-term service quality enhancement program, substantially ramped up our education and training efforts for staff, neutrals, and clients, and reshaped and enhanced aspects of our services to the labor/management community.

Despite the winding down of an insurance mass claims case involving 50,000 filings over a 15-month period, the number of cases filed with the Association in 2000 rose to 198,491, a year-to-year increase of 41.6%. The number of mediations overseen by the AAA increased 17.2% in 2000 to 4,188, and since 1995, the Association's overall annual caseload has more than tripled. Much of the increase in the 2000 caseload can be attributed to the success of the New York No-Fault Conciliation Center in downtown Manhattan, which opened its doors in late 1999. The new Center, which handles cases arising out of New York no-fault automobile insurance disputes through non-binding conciliation, administered 73,352 cases in its first full year of operation.

With the year-to-year increase in caseload, revenues grew 9% from 1999 levels. During the year, we made substantial investments in a number of projects, the most important of which were education and training, a fourth regional service center, the acquisition of an Internet-based ADR news service, and the development of e-commerce services to be introduced in 2001.

## 75 YEARS OF DISTINGUISHED SERVICE

### A GROWING STAKE IN THE APPLICATION OF TECHNOLOGY

Technology now infuses much of what we do and how we do it. As a result, we have staked out the application of technology to the conflict management process as an area in which we intend to be the global leader. In doing so, we are changing the face of the dispute resolution process, enhancing service delivery through proprietary technology we are developing. At the same time, we are heavily involved in the resolution of disputes involving technology-related issues – everything from intellectual property cases to claims arising out of B2B transactions made online.

Our entry into the technology arena has been, by almost any standard, quite successful, and the scope of our involvement is steadily expanding. One of the first steps was offering Internet access to our vast library of information about dispute resolution techniques,

rules, procedures, and protocols. We now routinely use CD-ROMs – like the one enclosed in the back of this report – to deliver a wide variety of information to members and clients, and in July we began offering online résumés of construction and employment mediators through our Web site, [www.adr.org](http://www.adr.org).

For several years, we have been very successfully employing elements of electronic case management in mass claims cases to coordinate scheduling and document delivery. In 2000, we introduced sophisticated “click and vote” online elections, the first user of which was the FedEx Pilots Association, and we are now able to put into the hands of clients, for their internal use, conflict avoidance and management tools in which AAA systems and processes have been embedded.

By 2003, it is estimated that virtually all businesses of any substance will have a Web presence, and Internet-based business-to-business commerce is going to expand exponentially. Successful conflict management organizations in this brave new world will be those building applications and services that make effective use of new technologies that help companies – especially those in vertically integrated B2B markets – leverage their Internet resources in order to both prevent and better manage disputes with customers and vendors. More generally, similar types of applications will help companies of any size improve the way they manage employee relations.

In this rapidly evolving paradigm, we – together with our clients – will examine how conflicts arise and help design both dispute avoidance mechanisms and online resolution systems. Pre-loaded information resources, procedures, and data will be integral to these systems, and mediations and arbitrations will increasingly be conducted online as it becomes inefficient to come offline for any but the most complex of disputes.

In recent months, we have taken three very important steps in support of our quest for the leadership position at the nexus of technology and conflict management. First, in October, we announced the acquisition of ADRWorld.com – our first subsidiary – that is the sole online source of up-to-the-minute news on arbitration, mediation, and other forms of conflict management. This acquisition is in keeping with the AAA’s educational mission and promises to be of substantial value to our members and neutrals, to whom the editorially independent news service is being offered at favorable rates.

Second, we were the driving force behind the creation of the eCommerce Dispute Management Protocol, released early in 2001. The product of a 35-person working group that we helped bring together, this groundbreaking protocol is a set of forward-looking principles

that provides companies with the guidelines they need to manage e-commerce disputes in a fair, timely, and final manner. Among the 18 charter signatories were AT&T, BellSouth, DaimlerChrysler AG, FedEx Corporation, Honeywell, Microsoft Corporation, PepsiCo, Inc., Philips Semiconductors, Inc., Pitney Bowes, Inc., Unisys Corporation, Wells Fargo & Company, and seven leading U.S. and international law firms.

Third, the AAA Board of Directors voted to fund the establishment of a new e-commerce services group, whose mission will be to provide conflict management and dispute resolution services to participants in the vertical B2B marketplace.

#### **A LONG-TERM SERVICE ENHANCEMENT PROGRAM**

A few years ago, we began a major restructuring of the way in which we deliver case administration services, concentrating the handling of cases in regional centers offering advanced technology and a highly trained cadre of case administrators. This was an important qualitative undertaking, because efficient case administration is one of the principal ways in which we add value to the arbitration and mediation process.

The first such center was established in Dallas in 1996, a second was opened in Atlanta two years later, and in June we launched a third regional center in Fresno. Our fifth office in California, the Fresno facility has a staff of approximately 100 and administers cases from California, Utah, Nevada, and Washington. A fourth and final regional center will be opened in Providence, Rhode Island in the summer of 2001.

We are also fostering the use of partnering programs for dispute avoidance and strengthening our emphasis on the use of dispute review boards (DRBs) in the construction industry. We created a new DRB panel, revised DRB procedures to shorten time frames, and introduced quality assurance mechanisms. This effort to expand our DRB capabilities grows out of the construction industry's interest in resolving disputes at an early stage so that project-scheduling goals can be met.

#### **EDUCATION: THE CORE OF OUR MISSION**

Education stands at the core of this organization's mission as a not-for-profit institution, and once again this past year we made major commitments toward the training of staff and neutrals and the enhancement of the training programs we offer our clients. As a service

organization, we take staff training seriously, and – with a goal of constantly improving our quality of service delivery – we are currently allocating more funds to staff instruction than at any point in our history.

In 1999, we established a Department of Neutrals' Services with an eye toward centralizing the training of neutrals and nurturing the AAA's relationship with them. Part of its mandate is to oversee an innovative arbitrator-training program that was unveiled in January of 2001. The core of the new program, which is mandatory for all AAA commercial arbitrators, is a standardized, systematic curriculum designed to strengthen case management knowledge and build skills in case management techniques. Within six months of joining the AAA panel, all new arbitrators will be required to take Arbitrator I, an at-home study module delivered on a CD-ROM. This is a precursor to two days of classroom training and focuses on the foundational aspects of the arbitrator's role and authority. Arbitrators currently on the AAA's roster of neutrals must take Arbitrator II, an entirely new two-day workshop devoted to advanced training in managing the arbitral process.

Additional training requirements include Arbitrator Update, which familiarizes neutrals with changes in AAA rules, significant court decisions, and revisions to state and federal law affecting arbitration. We also offer a menu of elective courses – Arbitrator Continuing Education (ACE) – which is available in a classroom setting, and in the upcoming months, through our Web site.

In the past year, the AAA has organized four major events for its neutrals. Three of them were our first-ever mediator conferences, and the fourth – a neutrals' retreat – is planned for October 2001 in Vancouver. The initial mediator conference was held in Denver and attended by 75 members of the Association's construction and employment panels from 38 states. The second, held in Chicago, included commercial mediators among its nearly 100 attendees, and the third, for construction and commercial mediators, was held in New Orleans and attended by nearly 50 people. The initial neutrals' retreat was convened in Orlando in 1998 and attended by more than 700 arbitrators and mediators from across the United States. Given the success of the first retreat, interest is running very high in the upcoming four-day meeting in Vancouver.

On the client side of our educational services activities, we continue to work with some of America's largest companies, unions, government agencies, and law firms to help them become better managers of conflict avoidance and management programs. These programs provide in-house conflict management training for human resource managers, legal staff, and employees. Topics covered include conflict management in the workplace, mediation and arbitration advocacy training, and ADR training for attorneys and members of the judiciary.



*Officers of the American Arbitration Association: William K. Slate II, John D. Feerick, Florence M. Peterson, Francesco Rossi, Edward V. Labey, Jr., John C. Emmert, Jr., and Jennifer Jester Coffman*

## STRENGTHENING LABOR-MANAGEMENT SERVICES

It is particularly appropriate that in our 75th anniversary year we are reporting a further strengthening of our services to the labor-management community, which is a significant source of our cases and has been an active supporter of the AAA since its inception.

There were four important developments in 2000. First, to foster consistent case management practices, we consolidated the administration of labor cases nationwide into 13 of our 38 offices. Second, we changed our reporting structure to bring labor and elections together so that for the first time all aspects of the AAA's labor case management, elections, and outreach efforts are under a single management team. Third, we formed a new specialized labor panel of arbitrators with significant experience in handling disputes involving union recognition and related representational issues linked to the election process and voluntary recognition. Lastly, we published a new arbitration fee schedule that had been widely sought by the labor community. It both lowers certain fees and simplifies filing options and arbitrator-selection procedures.

AAA Elections Services™ continues to be a rapidly growing part of our practice, particularly for labor unions. In 2000, we oversaw 275 elections, 19% higher than a year earlier, and, as noted earlier, we introduced online elections in 2000.

## **AN EXPANDING GLOBAL FOOTPRINT**

As we have noted in past reports, every year our mandate becomes increasingly global, and in 2001 the Association will open its first offshore facility, an educational and business development office in Dublin, Ireland. The caseload at our New York-based International Center for Dispute Resolution<sup>sm</sup> continues to grow steadily. Cases in 2000 rose to 510, compared to 453 cases filed in 1999. The spectrum of claims filed remains quite broad, ranging from telecommunications and pharmaceuticals to corporate and public utilities. One can also take the entire earlier discussion in this letter about technology disputes and correctly apply the term ‘global’ to them. Increasingly, claims involve Internet and e-commerce issues, as well as intellectual property disputes.

We continue to be a first-line resource for other nations seeking to develop or enhance an alternative dispute resolution infrastructure, something that has become an essential element of international trade. At the same time, we play a very active role in events fostering the international use of conflict avoidance and management techniques. In October, for example, we co-sponsored – along with the Inter-American Development Bank and the Multilateral Investment Fund – a two-day conference entitled “Commercial Alternative Dispute Resolution in the XXI Century: The Road Ahead for Latin America and the Caribbean.” Attendees included representatives from every nation in Latin America, along with individuals from Europe, Asia, and Canada.

The area of international involvement we point to with greatest pride is our \$6 million funding over a five-year period of the Global Center for Dispute Resolution Research<sup>sm</sup>. Formally established by the AAA in 1999 as an independent organization, its goal is to be the principal research institute devoted to understanding the development and utilization of dispute resolution services on a global basis. The Center’s initial research agenda will, in a two-pronged approach, concentrate on commercial arbitration. On the macro level, it will examine global trends in dispute resolution by industry, country, and process type, along with the forces that shape caseload fluctuations in different sectors. In a designed experiment at the micro level, it will look at specific aspects of dispute resolution processes such as cost effectiveness, time savings, quality of results, participants’ satisfaction levels, and ways in which results can be optimized.

## **ORGANIZATIONAL STREAMLINING**

Over a two-year period, we have reorganized reporting lines for national sales operations and case management to simplify our organizational structure. In 2000 we named John C. Emmert, Jr. to the newly created position of Executive Vice President and Chief Operating Officer, and Francesco Rossi was promoted to Senior Vice President, Chief Financial Officer and Treasurer.

The title of this report – “Proud Past, Bold Future” – is especially appropriate as we mark our 75th anniversary. It ties directly to our vision for this organization and speaks volumes about both our accomplishments and our prospects at what is a very exciting point in our history. Ours is indeed a proud heritage, as the second section of this report, which offers a brief overview of our history, suggests. We have been instrumental in securing arbitration’s virtually universal acceptance as a legal and binding means of dispute resolution outside the courtroom, and we are a driving force behind the remarkable growth in the use of arbitral services worldwide.

With the success and respect that the arbitration process now enjoys, it seems to us ironic that at this point in time there are attempts to weaken arbitration in the courts and Congress. In 2000, we filed two *amicus curiae* briefs with the Supreme Court of the United States in cases involving decisions that would have substantially weakened the Federal Arbitration Act, which is, in effect, the backbone of a national policy favoring arbitration. Similarly, we are available when called upon by federal policymakers to educate them on the benefits of arbitration and how a number of bills now before Congress would erode the effectiveness of arbitration, a circumstance that would have dire consequences for our court system.

We are one year into the implementation of our vision and values project, the goal of which is to live by and communicate – both internally and externally – our core values. Those values describe an organization that is committed in all its undertakings to integrity, the highest standards of client service, and the continuous improvement in the art and science of conflict management. As part of our effort to make this vision a conscious element in all aspects of our daily operations, we inaugurated the President’s Award for Living the Values to honor those staff members whose actions most embody the Association’s core values. The first announcement of these awards, five awards of \$3,000 and one of \$10,000, took place in January 2001, and the initial first-prize winner, Janice M. Holdinski of our Detroit, Michigan office, is being honored at our annual meeting in May.

This has been a year of significant achievement for us, and my personal thanks go out to everyone – our two Chairmen, directors, neutrals, and especially my colleagues on staff – who helped us move in often innovative and uncharted directions.



William K. Slate II  
*President and Chief Executive Officer*





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The American Arbitration Association is the largest provider of dispute resolution services in the world and the clear leader in its field. From its founding until today, it has administered more than 1.7 million cases, most of them arbitrations. About one-quarter of those cases were filed within the last five years, a good indicator of the pace at which the use of conflict management services is growing.

The mix of cases the AAA administers is as broad as our economy. Working out of 38 U.S. offices, we provide the best forum, expert neutrals, and thoroughly tested rules and procedures for resolving disputes in fields as varied as construction, automotive insurance claims, labor, internet commerce, health care, and consumer finance.

The Association's reach today is truly global. It has 54 cooperative agreements with 39 nations, offering multinational corporations access to familiar, reliable, and enforceable dispute resolution services in all of their offshore transactions. As the largest single repository of information on arbitration law and practice, we have become an international clearinghouse, furnishing information about conflict management processes to companies and government agencies in every part of the world.

## PROUD PAST: 75 YEARS

“Proud Past, Bold Future” – the title of this annual report – speaks to the distinguished heritage of this unique organization.

Throughout its 75-year history, the American Arbitration Association has been the prime mover and standard-setter in the field of conflict management and avoidance.

In the best tradition of the not-for-profit sector, the AAA was born into a mission of public service and education, an orientation it maintains to this day. Our freedom from commercial association or causes gives clients, who place a high value on our integrity, assurance that sensitive disputes will be properly handled.

Since our founding, our focus has been on developing the art and substance of dispute resolution services. The AAA helped foster the first modern U.S. arbitration standards and worked to establish the first true national arbitration system, making neutrals readily available and playing a leading role in forging what were among the first cohesive, independent arbitration procedures. We also pioneered a broad array of conflict avoidance and management tools that complement arbitration.



# OF DISTINGUISHED SERVICE

In 1974, we introduced mediation as an institutional dispute resolution option, and since then we have helped introduce and refine the use of negotiation, fact-finding, ombudspersons, dispute review boards (DRBs), and partnering as alternative means of managing conflict.

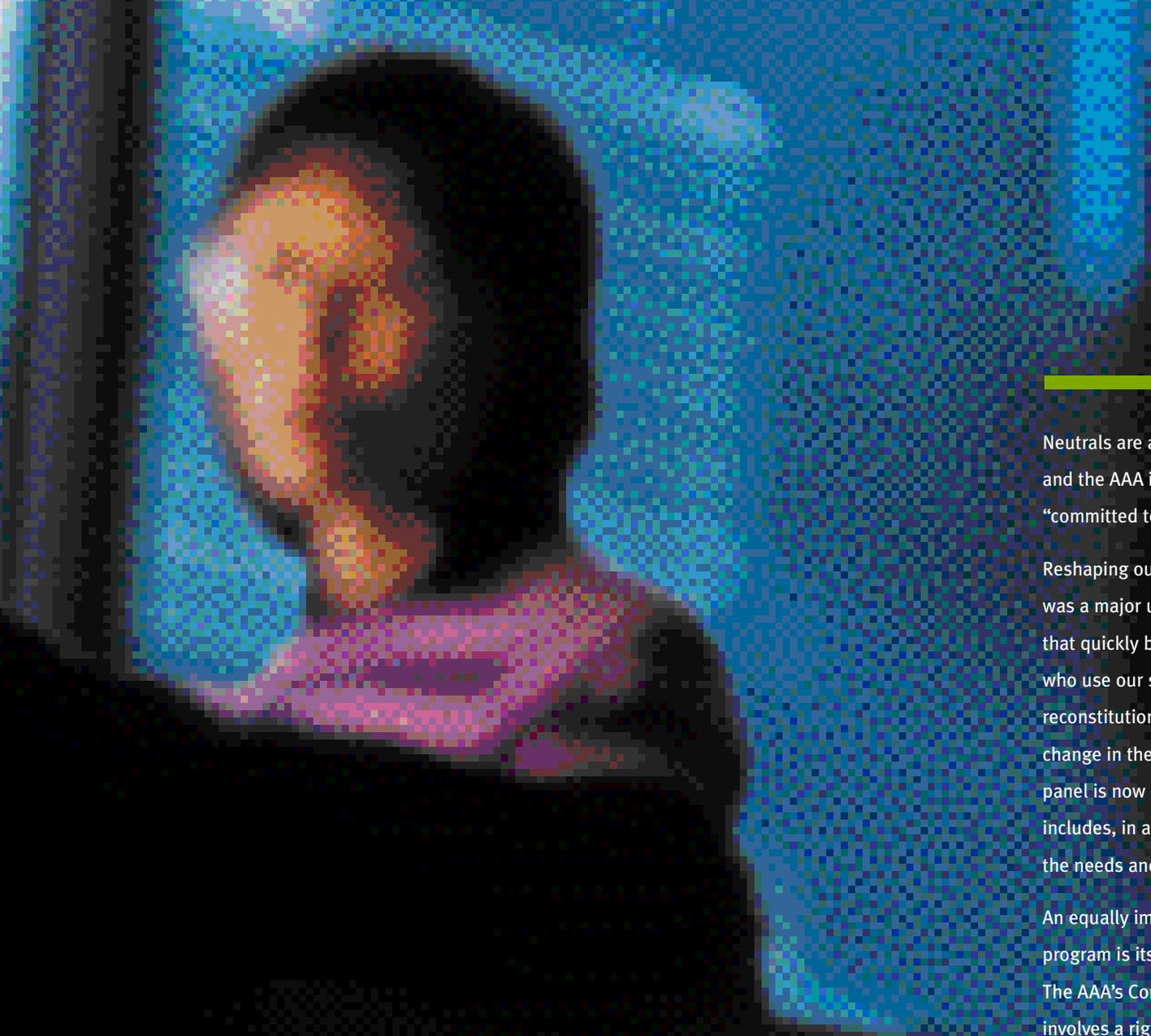
Our roots go back to January of 1926 when the Arbitration Society of America, the Arbitration Foundation, and the Arbitration Conference merged to form the American Arbitration Association. The Association's initial panel of 480 arbitrators has grown to more than 11,000, and we now offer numerous industry- or issue-specific panels in such areas as labor, construction, energy, intellectual property, transportation, and mass claims. Today, the AAA offers more than 50 sets of specialized rules and procedures addressing disputes in every important sector of an increasingly global commercial environment.



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Neutrals are at the heart of the conflict management process, and the AAA is – as its mission statement spells out – “committed to providing exceptional neutrals.”

Reshaping our neutrals’ program over the past five years was a major undertaking in every sense of the term, but one that quickly bore fruit and has been highly praised by those who use our services. At the core of that effort was the reconstitution of our commercial arbitration panel and a change in the procedures for selecting panel members. The panel is now chosen using an expanded set of criteria that includes, in addition to industry knowledge and experience, the needs and preferences of those who use our services.

An equally important element in the revamped neutrals’ program is its greatly strengthened educational component. The AAA’s Commercial Arbitrator Development Program involves a rigorous and substantive curriculum designed to strengthen case management skills – a program that assures our clients the most effective and economical methods of dispute resolution. And it is mandatory – we are the only global conflict management organization to require initial and ongoing training of neutrals.



## BUILDING THE PLATFORM: THE

Since the mid-1990s, the Association has been steadily reshaping itself – both structurally as an organization and in terms of its services and capabilities – to meet client needs in an increasingly global, increasingly competitive economic environment.

While many projects have been undertaken during this period – including the technology-related efforts discussed in the pages that follow – there were eight principal areas we addressed in what became a major qualitative redevelopment program within the context of the AAA’s traditional mission:

- A streamlining of our organizational structure that simplified our internal reporting framework and facilitated an improvement in service delivery.
- A recasting of our entire neutrals’ program – redesigning the selection process, strengthening mandatory training programs, creating the first national standards for mediators, reconstituting our principal arbitration panels, and creating numerous specialized panels.

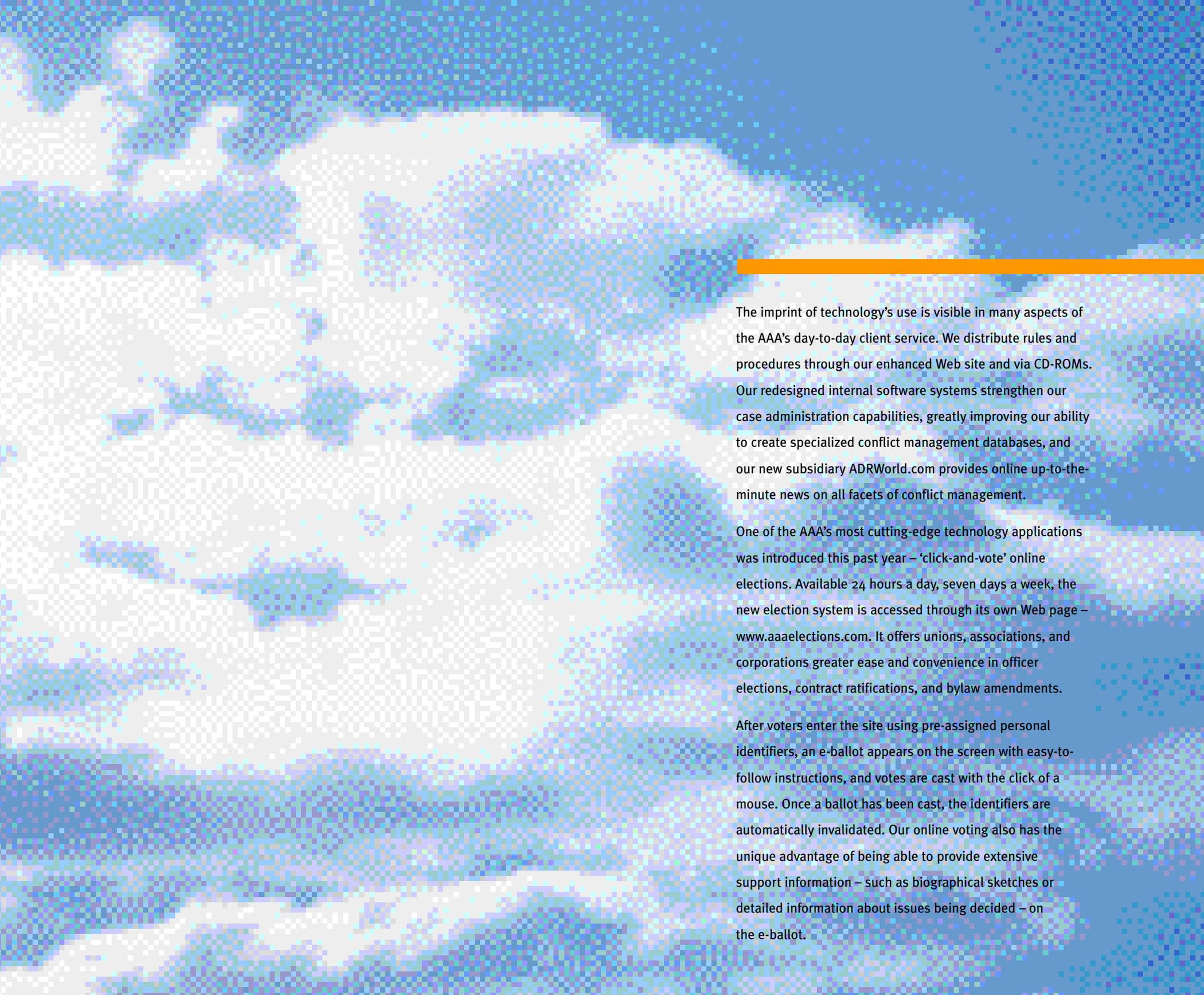


# CHANGING FACE OF CONFLICT MANAGEMENT

- A major commitment to strengthening and expanding staff training, with a goal of improving both client service and case administration.
- The consolidation of our case management services into four regional centers and the upgrading of those services through the introduction of a new, intensive case administration training program.
- The creation of a mass claims center and a no-fault automotive conciliation facility.
- The opening of our New York-based International Center for Dispute Resolution and continued expansion of our cross-border relationships with sister institutions and agencies in other countries, and the launching of regional dispute resolution centers such as the Commercial Arbitration and Mediation Center for the Americas.
- An ongoing program – carried out in partnership with the clients we serve – that has reshaped and redefined conflict management procedures on an industry-by-industry basis.
- The introduction of AAA custom-designed conflict avoidance and management systems for clients, along with an array of training programs that support the implementation of those systems.







The imprint of technology's use is visible in many aspects of the AAA's day-to-day client service. We distribute rules and procedures through our enhanced Web site and via CD-ROMs. Our redesigned internal software systems strengthen our case administration capabilities, greatly improving our ability to create specialized conflict management databases, and our new subsidiary ADRWorld.com provides online up-to-the-minute news on all facets of conflict management.

One of the AAA's most cutting-edge technology applications was introduced this past year – 'click-and-vote' online elections. Available 24 hours a day, seven days a week, the new election system is accessed through its own Web page – [www.aaaelections.com](http://www.aaaelections.com). It offers unions, associations, and corporations greater ease and convenience in officer elections, contract ratifications, and bylaw amendments.

After voters enter the site using pre-assigned personal identifiers, an e-ballot appears on the screen with easy-to-follow instructions, and votes are cast with the click of a mouse. Once a ballot has been cast, the identifiers are automatically invalidated. Our online voting also has the unique advantage of being able to provide extensive support information – such as biographical sketches or detailed information about issues being decided – on the e-ballot.

## BOLD FUTURE: INNOVATING



Over the last five years – perhaps the period of greatest change in the AAA’s 75-year history – two themes have been dominant: an increasing demand for conflict management services and an accelerating trend toward innovation in service delivery, much of it technology-based. The two are interrelated. To no small degree, it is the surge in demand that is driving the changes in the ways we provide our services and reshaping the face of dispute resolution.



Why the continuing surge in demand? Each year a steadily growing number of arbitration clauses are written into contracts across the entire sweep of our economy – in health care, employment, finance, telecommunications, energy, construction, travel services, and, yes, technology-related businesses.



With e-commerce have come e-disputes – a whole new field calling for innovative approaches to conflict avoidance and management. Moreover, it is a field that is likely to keep on growing at a steady pace in tandem with the anticipated rise in Web-based transactions among participants in an increasingly global economy.

# TO MEET SURGING DEMAND

In many respects, technology drives the solution. The reason for this can be summed up in four words: speed, accuracy, accessibility, and cost. To handle the sheer volume of new filings, we have had to devise cost-efficient systems that can handle a large number of filings quickly, correctly, and fairly – all in a process that is easily participated in by neutrals and disputants. This is precisely what we achieved in a mass tort insurance settlement when we handled 50,000 insurance cases in 15 months. The critical factors were the use of electronic filing for batch claims processing and a reliance on communications technology to enable ‘virtual arbitration’ via the Internet.

Going forward, we are developing proprietary services that directly address the needs of companies involved in e-commerce. The groundwork for this was prepared by the release in early 2001 of the eCommerce Dispute Management Protocol, which was signed by 18 major participants in B2B markets. Their support underscores the important role dispute resolution will play in Internet commerce, particularly in vertically integrated industry exchanges.



## AAA AND ADR: A LONG

Founded in 1926, the American Arbitration Association helps resolve a wide range of conflicts through mediation, arbitration, elections, and other out-of-court settlement procedures. The not-for-profit AAA – with 38 offices in the United States and 54 cooperative agreements with arbitral institutions in 39 countries – provides a forum for the hearing of disputes, efficient case management, tested rules and procedures, and a roster of impartial experts to hear and resolve cases.

The history, mission, and not-for-profit status of the AAA are unique within the alternative dispute resolution (ADR) profession. It is, however, the Association's ADR resources – its panels, rules, administration, and education and training services – that provide cost-effective and tangible value to organizations of every stripe – corporations, unions, and associations – as well as to their employees, customers, and business partners.

In the last decade, the use of mediation, arbitration, and other out-of-court settlement options has grown dramatically, as is evidenced by the record-breaking 198,491 cases filed with the American Arbitration Association in 2000. These case filings cover the full spectrum of economic activity – commercial finance, construction, labor and employment, mass claims, health care, insurance, real estate, energy, telecommunications, securities, and technology disputes.

# HISTORY, A BRIEF OVERVIEW

## MEMBERSHIP: THE WORLD OF ADR AT YOUR FINGERTIPS

Each year, more than 6,000 corporations, organizations, professional firms, unions, academic institutions, government agencies, and individuals provide membership support to the AAA. Members are kept informed of current industry trends, creative uses of ADR, case management techniques, case preparation and presentation recommendations, suggestions for drafting clauses for business contracts, and invitations to educational programs. Another primary benefit of membership is subscription to a number of award-winning periodicals, such as the *Dispute Resolution Journal* and *ADR Currents*, that offer authoritative articles, editorial views, and reports on current developments in conflict avoidance and management. Members are also entitled to discounted subscriptions to ADRWorld.com, the Internet-based ADR news service acquired by the AAA in 2000.

## THE AAA NEUTRALS: INTEGRITY, EXPERIENCE, AND QUALITY

The neutrals on the American Arbitration Association's domestic and international roster of arbitrators and mediators are industry practitioners, litigators, corporate counsel, and former judges with expertise across a broad spectrum of fields and professions. Chosen for their knowledge, case experience, integrity, and skills in dispute resolution, neutrals are nominated to the Association's roster by leaders in their industry or profession. The AAA's roster of arbitrators and mediators is comprised of panels with regional or industry specificity.

The quality of the neutral arbitrator and mediator is crucial to maintaining the integrity of the conflict management process and the core values of the American Arbitration Association. Because of their specialized industry knowledge and experience, many AAA neutrals are familiar with the customs and practices of the specific industries in which disputes may arise. Equally important is the neutral's preparation and training – an area to which the AAA is devoting significant resources.

Neutrals' conduct is guided by the Association's Code of Ethics for Arbitrators in Commercial Disputes, prepared by a Joint Committee of the American Arbitration Association and the American Bar Association, and the Model Standards of Conduct for Mediators, developed by the American Arbitration Association, the American Bar Association, and the Society of Professionals in Dispute Resolution.

## THE AAA'S SERVICES: BREADTH AND DEPTH

While the American Arbitration Association is best known for arbitration and mediation, its influence can be measured by the sheer scope of its resources and the breadth of its total service offering.

### AAA Systems Design<sup>SM</sup>

In the last decade, the AAA has worked with numerous companies to assess their current inventory of litigation matters and to assist in the design of fair and efficient conflict management systems that incorporate a full menu of dispute resolution options aimed at either dispute avoidance or the resolution of disputes in their earliest stages. Many of these programs include internal procedures – such as factfinding, ombuds, peer review and internal mediation – that can resolve disputes in a matter of weeks, to the satisfaction of all parties. For those conflicts, however, that do not reach settlement, the AAA provides trained and experienced neutrals who resolve disputes through mediation and arbitration.

### AAA Mediation<sup>SM</sup>

In a mediation, parties work together with the aid of a neutral facilitator who assists them in reaching a settlement. The mediator’s role is advisory and non-binding, and resolution of the dispute rests with the parties themselves. The AAA has a roster of “client-proven” mediators with significant experience and high settlement rates. Historically, more than 85% of mediation cases filed with the AAA have resulted in a settlement.

### AAA Arbitration<sup>SM</sup>

Arbitration is the submission of a dispute to one or more impartial persons for a final and binding determination. The American Arbitration Association is written into tens of thousands of agreements that call for the AAA to administer the arbitration of disputes.

Using the AAA’s Drafting Dispute Resolution Clauses, parties can develop arbitration clauses tailored to their situations. In writing arbitration agreements, the parties control the range of issues to be decided, the qualifications of the arbitrator, and many of the procedural aspects of the process. Should a dispute then arise, the AAA will administer the case and provide parties with a list of trained and experienced arbitrators. Once the parties have selected their mutually-acceptable arbitrator, an arbitration hearing is conducted. The average case is heard in one or two hearing days and, under the AAA’s Commercial Arbitration Rules, an award is issued within 30 days of the close of the hearing. The duration of a case – from commencement to closure – typically takes less than six months.

### AAA Education Services<sup>SM</sup>

As the nation’s leading provider of conflict management and dispute resolution services, education and training for staff, neutrals, and clients is a central part of our mission.

The Association’s education services department works with some of America’s largest companies, unions, government agencies, and law firms to help them become better managers of dispute resolution programs. Customized educational offerings include: in-house conflict management training for legal staff, human resource managers, and employees that incorporate programs on conflict resolution into the workplace; mediation and arbitration advocacy training; and training for attorneys and members of the judiciary. Educational programs are also offered in most major cities across the country and focus on such topics as communication, active listening, negotiation, effective conflict management, and mediation and arbitration advocacy.

### AAA Election Services<sup>SM</sup>

In a variety of settings, the AAA annually administers more than 250 impartial elections, including voting for labor union officials, contract ratification, and representation referenda. The Association is responsible for the planning, strategic management, and ongoing supervision of the entire election process so that the highest standards of quality, fairness, and integrity are maintained. Its computer scanning technology enables approximately 12,000 ballots to be processed and tallied each hour, offering instantaneous election results that are error-free. In 2000, the AAA introduced the online “click-and-vote” elections discussed on page 19 of this report. Although historically most of its elections experience has been in the United States, the AAA plans to expand its international elections offerings in the coming year.

### ADR IN PRACTICE: ITS SIGNIFICANCE AND SCOPE

Why does the use of conflict management continue to grow? Compared to litigation in the courts, costs are lower, disposition is faster, privacy is maintained, the process is less formal, and outcomes can preserve – and sometimes even improve – relationships among participants.

Increasingly common in a number of industries, the scope of alternative dispute resolution is virtually limitless, and its benefits are widely recognized.

### Business

Countless commercial contracts – domestic and international – contain clauses that provide for the mediation and arbitration of disputes. These include purchase and sales agreements, leases, property matters, licensing agreements, executive contracts, partnerships, franchises, joint venture and loan agreements, and shipping contracts. Even if there is no contractual provision for mediation or arbitration, parties can agree at any point to use an alternative dispute resolution method administered by the Association. With direct input from practitioners and professional organizations, we have developed panels and/or tailored rules and procedures for such areas as: accounting and related professional services; bankruptcy; commercial finance; computers; construction; employment (non-union); health care; insurance/reinsurance; intellectual property; international disputes; labor grievances; large, complex cases; mass claims; real estate; technology; telecommunications; and transportation.

## Construction

For more than 30 years, the construction industry – a major user of conflict avoidance and dispute resolution services – and the Association have worked together to develop the standard arbitration and mediation rules designated in most building contracts. The construction industry, which has used out-of-court settlement techniques more than any other sector, also employs a number of other non-binding processes to resolve conflicts close to the point of dispute. For example, partnering, a widely-used process in the construction industry, brings together all parties – owners, architects, contractors, subcontractors, engineers, and project managers – before the commencement of the project, with the goal of avoiding disputes once the work gets underway. The use of dispute review boards is also a highly regarded technique in the construction industry. A dispute review board, composed of a three-member construction panel that is selected by the owner and contractor after a contract is awarded but before disputes arise, is available to observe problems and offer immediate solutions at the job site. This “real time” dispute resolution process allows on-site experts, who visit the job site regularly and are advised regarding the project’s progress, to recommend settlements quickly, before adversarial positions can grow and harden.

In conjunction with industry leaders, the Association also is working on a new service called AAA Project Solutions<sup>SM</sup> that offers a “menu” of construction site-based dispute avoidance and resolution systems that can be tailored to meet the needs of a particular construction project.

## Consumer

The AAA, which historically has resolved business-to-business, insurance, and labor disputes, resolves relatively few consumer matters annually. Instead, most of the Association’s efforts in the consumer area have been focused on establishing standards of fairness to ensure a level playing field for consumers. In 1997, the AAA convened a group of leading consumer advocates, corporate attorneys, and dispute resolution professionals to develop the Consumer Due Process Protocol, which today is heralded as a model for fair and equitable consumer arbitration programs.

## Employment

To resolve workplace conflicts, more than 500 employers and 5 million employees worldwide turn to the AAA. Underlying the success of any employment ADR program are due process safeguards. They ensure fairness for both employee and employer in disputes ranging from the breach of an employment contract and wrongful termination to sexual harassment and discrimination. The AAA's National Rules for the Resolution of Employment Disputes and the Due Process Protocol for the Mediation and Arbitration of Statutory Disputes Arising Out of the Employment Relationship have set the standard for dispute resolution in the workplace. To hear and resolve these cases, the AAA offers a national panel of experts – diverse in gender and ethnicity – who have significant employment law experience and have attended the Association's mandatory employment arbitrator training program.

## Federal Agencies

In the past decade, a notable change of attitude has emerged in the legislative and executive branches toward the use of alternative dispute resolution by federal departments and agencies. Because of the demonstrated success of programs to date, the federal sector is beginning to actively embrace ADR as an alternative to litigation. While the federal sector was not previously permitted to use binding arbitration to resolve disputes, the enactment of the Administrative Dispute Resolution Act of 1996 permanently authorized federal agencies and departments to use ADR procedures.

Currently, more than 40 agencies are using some form of ADR. The Postal Service, the source of the most grievances, found that employee complaints fell by 77% in three regions that had begun to offer mediation. The General Services Administration has included the American Arbitration Association on its Supply List as an authorized source of employment mediators to resolve U.S. federal agency workplace disputes. The Association is also one of four organizations selected to provide the full range of alternative dispute resolution support services to the U.S. Air Force.

## Health Care

Health care providers, managed care organizations, and their enrollees are increasingly involved in disputes in which resolution by mediation or arbitration is the most time- and cost-effective option. To ensure fair and equitable standards for the resolution of health care disputes, the AAA teamed up with the American Bar Association and the American Medical Association to develop a health care-specific due process protocol.

## Insurance

The insurance industry is one of the most frequent users of ADR, and insurance claims disputes are a significant portion of the AAA's annual caseload. Insurance claims typically fall into several areas: life, health, and disability; property and casualty; product and professional liability; no-fault automobile; reinsurance; workers' compensation; construction; homeowner warranties; and uninsured motorists.

The AAA is the designated administrator of no-fault automobile disputes in Minnesota, New Jersey, and New York.

As part of the Association's ongoing effort to address specialized dispute resolution needs, the AAA established the New York No-Fault Conciliation Center in 1999 to facilitate the resolution of New York no-fault insurance disputes through conciliation before the need for arbitration even arises. Conciliation is a process calling for disputing parties to work together with the aid of a neutral facilitator – a conciliator – who assists them in reaching a mutually acceptable resolution to their dispute. The conciliator's role is advisory and non-binding; resolution of the dispute rests with the parties themselves. While resolving disputes through conciliation often avoids the need for arbitration, if parties are unable to reach settlement during the conciliation phase, arbitration can play a valuable role in ensuring a fair and expeditious conclusion to the dispute.

## International

Heightened interest in all forms of private dispute resolution is sweeping through international commerce. Increasingly, companies with international ties are incorporating mediation and arbitration clauses into their cross-border contracts. The benefits are numerous: parties can determine in advance where a dispute will be arbitrated, which rules will govern the proceedings, the number of arbitrators and the method for selecting them, the nationalities and qualifications of arbitrators, and the timetable for arbitration. The Association's

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## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF AMERICAN ARBITRATION ASSOCIATION, INC.

We have audited the accompanying balance sheets of American Arbitration Association, Inc. (the "Association") as of December 31, 2000 and 1999, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 7, 2001

## BALANCE SHEETS

December 31, 2000 and 1999

	2000	1999
<b>Assets</b>		
Cash and Cash Equivalents	\$ 2,019,000	\$ 2,208,000
Investments – At fair market value (Note 2)	49,539,000	45,687,000
Administration Fees Receivable		
Less allowances for cancellations and uncollectible accounts of \$1,252,000 in 2000 and \$2,064,000 in 1999	18,280,000	15,862,000
Other Receivables (Note 5)	899,000	1,823,000
Prepaid Expenses and Other Assets (Note 5 & 6)	8,608,000	6,149,000
Deferred Pension Costs (Note 4)	1,485,000	–
Furnishings, Equipment and Leasehold Improvements – Net (Note 5)	11,135,000	9,157,000
Total Assets	\$ 91,965,000	\$ 80,886,000
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 42,138,000	\$ 33,728,000
Accrued postretirement medical costs (Note 4)	6,949,000	6,423,000
Accrued pension liability (Note 4)	2,638,000	466,000
Total Liabilities	51,725,000	40,617,000
Commitments (Note 3)	–	–
Unrestricted Net Assets	40,240,000	40,269,000
Total Liabilities and Net Assets	\$ 91,965,000	\$ 80,886,000

See notes to financial statements.



## STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years Ended December 31, 2000 and 1999

	2000	1999
<b>Operating Revenues</b>		
Administration fees earned:		
Commercial	\$ 45,163,000	\$ 48,229,000
Accident:		
Uninsured motorist	2,149,000	2,304,000
No-Fault	21,192,000	11,708,000
Labor	5,025,000	5,019,000
Elections	3,701,000	2,572,000
	77,230,000	69,832,000
Publications and education	986,000	1,659,000
Membership dues	2,141,000	2,278,000
	80,357,000	73,769,000
<b>Expenses</b>		
Administration of tribunals	67,611,000	57,888,000
Elections	3,164,000	2,145,000
Publications and education	2,980,000	3,299,000
Membership	568,000	507,000
General and administration	7,361,000	7,358,000
Total expenses	81,684,000	71,197,000
Net operating (loss) income	(1,327,000)	2,572,000
<b>Non-Operating Revenues</b>		
Interest and Dividends on Investments – Net of Fees	1,414,000	1,513,000
Net Gain on Sales of Investments	564,000	2,511,000
Unrealized Investment Loss	(416,000)	(3,405,000)
Excess of Revenues over Expenses	235,000	3,191,000
Unrestricted Net Assets, Beginning of Year	40,269,000	36,621,000
Minimum Pension Liability Adjustment (Note 4)	(264,000)	457,000
Unrestricted Net Assets, End of Year	\$ 40,240,000	\$ 40,269,000

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2000 and 1999

	2000	1999
<b>Cash Flows from Operating Activities</b>		
Excess of revenues over expenses	\$ 235,000	\$ 3,191,000
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization – net	2,031,000	1,645,000
Net gain on sales of investments	(564,000)	(2,511,000)
Postretirement benefits other than pensions	526,000	700,000
Unrealized investment loss	416,000	3,405,000
Loss on the disposal of assets	297,000	398,000
Changes in operating assets and liabilities:		
Increase in administration fees receivable	(2,418,000)	(4,149,000)
Decrease in other receivables	924,000	2,111,000
Decrease (Increase) in prepaid expenses	733,000	(1,538,000)
Increase in accounts payable and accrued expenses	8,499,000	1,417,000
Increase in minimum pension liability	424,000	331,000
Net cash provided by operating activities	<u>11,103,000</u>	<u>5,000,000</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of furnishings, equipment and leasehold improvements	(4,299,000)	(3,919,000)
Proceeds from sales of investments	54,267,000	35,738,000
Purchase of investments	(57,971,000)	(37,395,000)
Acquisition of ADRWorld.com – Net of cash acquired	(148,000)	–
Software development costs	(2,497,000)	(1,419,000)
In-progress construction	(553,000)	(319,000)
Net cash used in investing activities	<u>(11,201,000)</u>	<u>(7,314,000)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on capital lease	(91,000)	(104,000)
Net cash used in financing activities	<u>(91,000)</u>	<u>(104,000)</u>
Net Decrease in Cash and Cash Equivalents	(189,000)	(2,418,000)
Cash and Cash Equivalents, Beginning of Year	2,208,000	4,626,000
Cash and Cash Equivalents, End of Year	<u>\$ 2,019,000</u>	<u>\$ 2,208,000</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2000 and 1999

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business** The American Arbitration Association (the "Association") is a not-for-profit organization that provides administrative, educational and development services for the widespread use of dispute resolution procedures. On December 7, 2000, the Association purchased ADRWorld.com, a Delaware Limited Liability Company. ADRWorld.com delivers via the Internet ADR news, research and industry information.

**Administration Fees** The Association bills a nonrefundable initial filing fee at the commencement of the dispute resolution process, and then bills a case service fee payable in advance prior to the first scheduled hearing. The case service fee is refundable at the conclusion of the case if no hearings have occurred.

Prior to September 1, 2000, the Association billed a nonrefundable administrative filing fee at the commencement of the dispute resolution process, and then billed for services as they were provided. Revenues are recognized at the amount of the nonrefundable initial filing and administrative filing fees that are billed. Case service fee revenues are deferred until a hearing has occurred.

Included in Commercial Administrative fees earned are revenues totaling \$417,000 and \$7,919,000 in 2000 and 1999, respectively, related to a program which ended in 2000.

The Association collects amounts in advance for unearned arbitrators' compensation, which is included in accounts payable.

**Membership Dues** Membership dues are recognized upon receipt from the member.

**Cash and Cash Equivalents** The Association considers all highly liquid investments with a maturity of three months or less on date of purchase to be cash equivalents.

**Investments** Investments are reported at market value. Cash equivalents included in investments are held for investment purposes. Realized gains and losses are determined on a first-in, first-out basis. Changes in unrealized investment gains or losses are reported in the statement of operations.

**Goodwill** Goodwill, included in Prepaid Expenses and Other Assets, is reported net of accumulated amortization. The amount amortized on a monthly basis is determined by the estimated useful life of the asset on a straight-line basis, in accordance with Accounting Principles Board Opinion No. 17, Intangible Assets.

**Furnishings, Equipment and Leasehold Improvements** Furnishings, equipment and leasehold improvements are stated at cost. Depreciation and amortization, which includes the amortization of assets recorded under a capital lease, are computed using the straight-line method over the estimated useful lives of the individual asset or remaining term of the lease. The cost of maintenance and repairs is charged to expense as incurred.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Tax Status** The Association is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and therefore, no provision for income taxes is included in the Association's financial statements.

**Reclassification** The 1999 financial statements have been reclassified to conform to the 2000 presentation.



## 2. INVESTMENTS

Investments at December 31, 2000 and 1999 consist of the following:

	2000		1999	
	Cost	Market Value	Cost	Market Value
Domestic Equity Securities	\$ 31,739,000	\$ 30,685,000	\$ 21,894,000	\$ 21,123,000
Government and Agency Bonds	4,798,000	5,057,000	4,524,000	4,518,000
International Equity Fund	—	—	7,248,000	7,923,000
Corporate Bonds	10,760,000	10,855,000	10,743,000	10,588,000
Foreign Fixed Income	799,000	798,000	633,000	610,000
Cash Equivalents	2,144,000	2,144,000	925,000	925,000
	<u>\$ 50,240,000</u>	<u>\$ 49,539,000</u>	<u>\$ 45,967,000</u>	<u>\$ 45,687,000</u>

Market values for Government and Corporate Bonds include accrued interest receivable at December 31, 2000 and 1999 of \$145,000 and \$150,000, respectively.

**Derivative Financial Instruments** The Association does not enter into derivative financial contracts for trading purposes.

The Association enters into foreign currency forward exchange contracts to manage exposure related to certain foreign fixed income instruments that may arise from changes in foreign exchange rates. For the year ended December 31, 1999, the Association had outstanding foreign currency exchange contracts to sell of \$135,000. The unrealized gain/loss is not material and has been included in the Association's unrealized investment losses in the statement of operations.

## 3. COMMITMENTS AND CONTINGENCIES

The Association conducts all of its activities from leased office space and is currently a party to various leases that expire between 2001 and 2015. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations for the years ended December 31, 2000 and 1999 amounted to \$10,346,000 and \$8,425,000, respectively. In addition, the Association leases certain office furniture and computer equipment under various operating leases, and computer software under a capital lease, all of which expire over the next one to three years.

Net minimum noncancelable lease commitments for office facilities, equipment, and software, exclusive of any future escalation charges, are summarized below:

**Year Ending December 31,**

2001	\$ 9,483,000
2002	8,411,000
2003	7,595,000
2004	6,617,000
2005	5,854,000
Thereafter	34,104,000
	<u>\$ 72,064,000</u>

Obligations under a capital lease totaled \$97,000 and \$187,000 at December 31, 2000 and 1999, respectively, and are included in accounts payable.

In 1997, the Association entered into a five-year Letter of Credit agreement totaling \$1,875,000 to guarantee an operating lease rental obligation. This Letter of Credit is secured by assets maintained in the investment portfolio.

#### **4. PENSION AND OTHER POSTRETIREMENT BENEFITS PLANS**

The Association maintains a contributory, qualified defined benefit pension plan covering substantially all of its full-time employees. The Association makes contributions to the plan based on actuarial calculations.

The Association also provides certain healthcare benefits for substantially all of its retirees. The Association is required to accrue the estimated cost of these retiree benefit payments during employees' active service period. The Association pays the cost of the postretirement benefits as incurred.



The following tables set forth each plan's funded status and amounts recognized in the Association's financial statements at December 31, 2000 and 1999:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Benefit of obligation at December 31	\$ 25,792,000	\$ 24,597,000	\$ 6,933,000	\$ 5,986,000
Fair value of plan assets at December 31	21,521,000	23,981,000	–	–
Funded status	\$ (4,271,000)	\$ (616,000)	\$ (6,933,000)	\$ (5,986,000)
Accrued benefit cost recognized in the statement of financial position	\$ (890,000)	\$ (466,000)	\$ (6,949,000)	\$ (6,423,000)
Weighted-average assumption as of December 31				
Discount rate	7.50 %	7.75 %	7.50 %	7.75 %
Expected return on plan assets	8.50 %	8.50 %	n/a	n/a
Rate of compensation increase	5.80 %	5.80 %	n/a	n/a

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000.

The rate was assumed to decrease gradually to 5.5% for 2006 and remain at that level thereafter.

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Benefit cost	\$ 844,000	\$ 1,348,000	\$ 807,000	\$ 838,000
Employer's contribution	419,000	1,017,000	–	–
Plan participants' contributions	174,000	208,000	5,000	4,000
Benefits paid	2,333,000	1,648,000	287,000	143,000

The pension plan provides benefits equal to the sum of (a) for each year of benefit accrual service (or any fractional part thereof) credited on or before January 1, 1997, 1.75% of earnings on January 1, 1997, and (b) for each year of benefit accrual service credited after January 1, 1997, 1.75% of earnings as if in effect on January 1 of such year.

The provisions of Financial Accounting Standards Board Statement No. 87, Employers' Accounting for Pension Costs, require the Association to recognize a minimum pension liability relating to certain unfunded obligations, establish an intangible asset relating thereto, and reduce net assets. At year-end, this minimum pension liability is remeasured as required by the Statement. As a result, at December 31, 2000 and 1999, the Association's additional minimum liability was \$1,748,000 and \$0, respectively. The related intangible asset was \$1,484,000 and \$0, respectively. Net assets were adjusted by \$264,000 to reflect the net change in the additional minimum liability offset by the net change in the related intangible asset. The Association recognized an accrued pension liability in 2000 and 1999 of \$2,638,000 and \$466,000, respectively, which in 2000 is related to the accrued benefit cost of \$890,000 and an additional minimum liability of \$1,748,000.

On January 1, 2001, the Association amended the Plan eliminating the plan participant required contribution. As a result, all eligible employees became members of the plan. Currently, the Association is not able to determine the effect on the benefit obligation or net periodic pension cost.

## 5. FURNISHINGS, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furnishings, equipment and leasehold improvements for the years ended December 31, 2000 and 1999 were as follows:

	2000	1999
Furnishings and equipment	\$ 10,629,000	\$ 8,844,000
Leasehold improvements	8,022,000	6,317,000
	18,651,000	15,161,000
Less accumulated depreciation and amortization	7,516,000	6,004,000
	\$ 11,135,000	\$ 9,157,000

In 2000 and 1999, the cost of leasehold improvements has been reduced by \$543,000 and \$1,535,000, respectively, due from landlords for reimbursement of construction costs. The amount due is included in Other Receivables.



In 2000 and 1999, the Association recognized a loss of approximately \$161,000 and \$158,000 relating to the disposal of certain assets with original costs totaling \$1,353,000 and \$1,369,000, respectively. Included in prepaid expense are costs associated with the development of software for internal use of \$4,907,000 and \$2,410,000 and in-progress construction for leased facilities of \$553,000 and \$870,000 for 2000 and 1999, respectively, prior to being placed into service. When placed into service these costs will be included in capital assets and amortized over their estimated useful lives.

## 6. ACQUISITION

On December 7, 2000, the Association purchased ADRWorld.com (“ADRW”), a Delaware Limited Liability Company (LLC). ADRW delivers via the Internet ADR news, research and industry information to individuals, companies, and institutions around the world. The acquisition price included cash of \$152,500 and the issuance of Notes Payable totaling \$280,000 to an original investor which is payable over one year at 6%. The acquisition was recorded in accordance with the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on estimated fair values. Goodwill of \$428,000 is being amortized over five years on a straight-line basis. The purchase agreement includes additional consideration contingent on future earnings. Operating results of ADRW since the date of acquisition are included in the financial statements.