



American Arbitration Association
Dispute Resolution Services Worldwide

2001 PRESIDENT'S LETTER
AND FINANCIAL STATEMENTS



2 0 0 1 P R E S I D E N T ' S L E T T E R A N D F I N A N C I A L S T A T E M E N T S

Milestones – those stops along the way when we reflect on past and future – often help us capture what is best in an organization while putting into sharper focus goals yet to be reached.

Our 75th anniversary, which we celebrated in 2001, underscored important continuing themes in the rich tapestry of this organization's history – unwavering pursuit of excellence in the field of dispute resolution, a willingness to take chances and to innovate, coupled with steady expansion of the resources we offer our members. These qualities can be summed up in a single phrase: leadership in our field.

Today – at 76 years truly young – pure statistics depict, in part, why the American Arbitration Association (AAA) is universally regarded as the world's foremost provider of conflict management information and services: Nearly 11,000 members on our National Roster of Neutrals. Thirty-six offices across the United States and, as of last year, one in Europe. Arbitral agreements with 56 organizations in 40 nations. Over 218,000 cases administered in 2001, our seventh successive year of caseload growth. A library that is the world's largest repository of information about dispute resolution. Award-winning publications. A nationwide education arm that runs at least one education program every working day of the year.

What the statistics don't depict, however, are the vision – and the determination behind that vision – that push us to the forefront, continually striving to improve both the art and substance of conflict management and resolution. Our statement of core values, adopted two years ago, sums up both the essence of our heritage and the goals we have set going forward: "The American Arbitration Association will be the global leader in conflict management – built on integrity, committed to innovation and embracing the highest standards of client service achievable in every undertaking."

These goals are especially appropriate as we enter what is clearly a new arena, one that is increasingly global in scope, defined by strong and steady growth in the demand for conflict management services, and one that is changing rapidly as the shape of the way we do business evolves. In 2001, a year of both challenge and significant accomplishment, we took important steps to extend and strengthen our service platform by:

- > expanding our ability to serve in a global marketplace by opening an office – our first outside the United States – in Dublin as our gateway to the European market,
- > establishing our fourth and last regional case management center,
- > continuing to take advantage of advances in information technology to improve the conflict management process, particularly in the eCommerce sector,
- > implementing rule and procedure changes that provide broader safeguards to consumers involved in arbitration,
- > leading an educational effort to help users of dispute resolution techniques understand fully their responsibility to follow the letter and spirit of arbitration due process protocols, and
- > once again broadening – and making more responsive – our services to the labor-management community.

It goes without saying that 2001 – a year marked by a difficult economic environment and the events of September 11th – was a period that tested all of us. While the operations of our New York City facilities – one of which is located eight blocks from the World Trade Center site – were disrupted by the attack, we were fortunate that no one in our organization was injured.

Despite a significant falloff in business activity immediately following September, our caseload rose 10% year to year, and revenues increased 3.4%. Once again, the New York No-Fault Conciliation Center in downtown Manhattan had a solid year, its caseload increasing 15.8% to 84,977. Now in its third year of operation, this facility handles, through non-binding conciliation, cases arising out of No-Fault automobile insurance disputes in New York.

The September 11th attacks forced the cancellation of the Neutrals' Retreat scheduled for mid-October in Vancouver, British Columbia. This was to be one of the signature events of the year, and while the conference itself was cancelled, the continuing neutrals' educational programs that were a major part of its agenda are being conducted regionally and online.

A N O R G A N I Z A T I O N - W I D E C E L E B R A T I O N

Among the high points of the year were a number of events celebrating our 75th anniversary. The principal one took place on January 29th at 3:00 p.m. EST – the day of our founding 75 years earlier – when our entire organization joined together in an 800-person conference call that linked all our offices in a single celebration. John D. Feerick, Dean of Fordham University School of Law and AAA Board Chairman, spoke on the call of how the Association's groundbreaking early work created a model for modern state arbitration law, emphasizing our role as the standard-setter in the alternative dispute resolution movement.

On that same afternoon, I paid a surprise visit to our Detroit office, where it was my honor to present the first President's Award for Living the Values to Janice M. Holdinski, an Assistant Vice President with 26 years of experience serving AAA clients. A total of six awards, one for \$10,000 and five honoree awards for \$3,000, were given to recognize those staff members whose actions best embody the Association's core values. Employees in our Boston, Somerset, NJ, New York, and San Diego offices won honoree awards.

A F I R S T S T E P O F F S H O R E

As Dean Feerick noted, we take the mantle of standard-setter and standard-bearer for ADR very seriously – the reason behind our vision and values project and the President's Award. Increasingly, that role involves moving on an international playing field as the global appetite for conflict management services and information steadily expands.

Two important steps were taken in that direction during 2001. We formally designated our international business as a separate division of the AAA under our International Centre for Dispute ResolutionSM (ICDR) banner. This gives the ICDR a distinct international positioning that is more in keeping with its global mission and its growing reputation as a preeminent forum for handling cross-border disputes. Now, under revised international rules, either the ICDR or the AAA may be named as the arbitral institution of choice in international contracts. The ICDR, established in 1996 and staffed by experienced case managers supervised by multilingual attorneys, administered 649 cases in 2001 – 26% more than in 2000, moving the ICDR into the leadership position among the world’s commercial arbitral institutions in terms of the volume of cases handled. In total, \$4.5 billion in claims and counterclaims were filed, and in more than 40% of the filings, claims were either for more than \$1 million or for an undisclosed amount, which is typically indicative of a very large claim. The cases handled by the ICDR involved arbitrators and parties from 63 nations, and the time from filing to award averaged less than ten months.

Under the ICDR banner we also opened our first offshore office in Dublin in June. We chose Ireland because of its healthy business climate, its accessibility to Europe, and a body of law that is very supportive of the arbitration process. We have also begun efforts to educate the European market more broadly about our services, including our global panel of over 400 experienced and culturally diverse neutrals.

In February, senior AAA officials made a weeklong trip to China that resulted in the signing of a new cooperative agreement with the China International Economic and Trade Arbitration Commission (CIETAC). This agreement, which supplements prior accords, is the first to include concrete initiatives for mutual administrative assistance in setting up arbitration proceedings in either the United States or China. It also provides for cooperation in promoting arbitration as a means of settling international commercial disputes and in running educational conferences and seminars on conflict management.

Finally, we continue to support the work of the Global Center for Dispute Resolution ResearchSM, an organization devoted to fact-based research exploring the use and effectiveness of dispute resolution methods in international commerce that we were instrumental in establishing three years ago. During 2001, the Center published seminal research papers on such topics as privacy in arbitration and an empirical analysis asking whether arbitrators “split the baby.” (The answer is, “No.”). It also conducted a survey of over 100 parties to international arbitration and their attorneys asking them to rank the most important characteristics of an arbitration. Interestingly, the four most highly ranked results were a fair and just outcome, the cost of the proceedings, the monetary importance of the award, and the finality of the decision. More information about the Center’s objectives and its research program can be found at www.globalcenteradr.org.

PUTTING THE FINAL STONE IN PLACE

Since 1996, we have been in the midst of a major service enhancement program, restructuring the way in which we deliver our case management services. The program involves concentrating the administration of case management services in regional centers that capitalize on advanced case-handling technology and a highly trained group of professional case administrators. Earlier, regional centers were opened in Dallas, Atlanta and Fresno, and this year we put the last building block in place, our Northeast Case Management Center in East Providence, RI.

The East Providence facility, when fully staffed at 150, will be our largest regional center, handling cases from 11 states stretching from West Virginia to Michigan to Maine. The critical element in these centers is the quality of the professional staff, all of whom are trained under AAA supervision. The goal is to simply provide the highest standard of client service and the most efficient case management achievable, one of the chief ways the AAA adds value to the process of arbitration and mediation.

Under the heading of expanded services, we created in 2001 a new specialized panel of sports neutrals and established the National Patent Board Center for Dispute Resolution (NPBCDR). The sports panel will resolve disputes involving player contracts, endorsements, salaries and other issues faced by professional athletes. Panel members were drawn from a variety of backgrounds including the AAA's Olympic Games panel, which arbitrates athlete eligibility disputes, and its U.S. Anti-Doping Agency panel.

The NPBCDR, formed after we purchased the assets of the National Patent Board (NPB), is located in the new Northeast Case Management Center in East Providence. Using both AAA and NPB arbitrators and rules, the new organization will further develop out-of-court dispute resolution services in patent cases, offer arbitral training and maintain a Web site dedicated to information about patent disputes.

THE GROWING IMPORTANCE OF TECHNOLOGY

It is difficult to overestimate the growing importance of technology in our field, both as a process enhancer and as a source of disputes to be resolved. Two years ago we set a goal of becoming the global leader in the application of technology to dispute resolution, and since then we have made real progress toward that goal.

We began by offering Internet access to the AAA's extensive library of information about dispute resolution techniques, and in the past year we have redesigned and substantially enhanced our Web site, www.adr.org, whose traffic has nearly doubled in a year. We have enriched the site by adding mediator biographies, a demonstration of online voting capabilities, a MapQuest program for our office locations, an archive area, and the capability to order Association publications online. Soon, AAA members will also be able to conduct online database searches through our Library and Information Center.

Last year, we introduced sophisticated “click and vote” online elections; this year we rolled out a “touch-screen” voting system that is 100% accurate and operates in a manner similar to an automatic teller machine screen. We continue to use electronic case management techniques in mass claims cases for the coordination of schedules and the delivery of documents, and in 2001 we launched AAA Web R.A.D.I.O. (Recent ADR Developments & Issues Online), an Internet-based arbitrator training course available through the AAA Web site. Web R.A.D.I.O. offers seven “stations” that, for a fee, provide commercial, construction and employment arbitrators with required continuing education modules.

Two developments in 2001 will have, we believe, particular importance over the longer term – the introduction of Online Dispute Resolution (ODR) – filing online using AAA WebFileSM – and the further development of the leadership position we are carving out in the handling of disputes arising in business-to-business (B2B) transactions conducted via the Internet. Both play into what are likely to be significant trends, and both promise tremendous opportunity for the organization that provides the most effective services – the competitive space we intend to occupy.

AAA WebFile offers an online dispute resolution technology framework that is fast and cost-effective and can be used by parties participating in either traditional or eCommerce transactions. Using AAA WebFile, all of the participants’ document filings can be made online, arbitrators and mediators may be selected, filing fees may be paid by credit card and a variety of case management tools – including the ability to access and manage multiple cases – are made available. If the parties have agreed to a “Documents-Only” arbitration, the arbitrator, after reviewing the case material, communicates his or her decision by email. We foresee a growing number of traditional cases being handled through AAA WebFile or through a combination of the off- and online services we provide. As this report goes to press, 204 commercial cases involving disputes ranging from intellectual property to real estate and executive employment have been filed online during a 5-month period using AAA WebFile, nearly half of them with claims ranging from \$10,000 to \$75,000.

With analysts predicting a \$5 trillion business-to-business eCommerce market by 2005 and a far larger business-to-consumer market, we set up a new eCommerce focus area on our Web site that directly targets the management of risk and the handling of disputes in an Internet environment. It is designed to help businesses assess the likelihood of value/supply chain disputes and take steps to contain conflicts when they do arise. It builds on the platform established by the eCommerce Dispute Management Protocol that we, in collaboration with industry leaders, helped create last year – a critical step in establishing practices that lead to fair and just outcomes.

Equally important, for more complex B2B disputes, we can provide a “hybrid solution” – online claims and case management combined with in-person hearings and hands-on administration by seasoned case managers when the situation calls for it. In addition to offering rules and procedures online and access to a specialized B2B eCommerce Panel of Neutrals, we are offering advisory services that help organizations implement B2B dispute resolution and management programs, including how to move claim filing online.

FAIRNESS AND INTEGRITY IN CONSUMER DISPUTES

Fairness and integrity are the watchwords of effective dispute resolution, and nowhere is fairness more a topic of debate than in safeguarding the interests of consumers in an arbitration setting. In 1998 we published a Consumer Due Process Protocol, which focused directly on establishing standards of fairness in the management of consumer disputes, and the following year we issued tailored consumer rules that apply to all transactions with consumers, regardless of size. In the interim, we have closely followed developments in related case law and implemented a number of important changes in the light of case law developments. The latest revision, implemented in March of 2002, includes changes to the fee structure for consumer disputes. The consumer's portion of arbitrators' fees has been capped at \$125 and \$375 in cases below \$10,000 and \$75,000, respectively, making the process more financially accessible to consumers with smaller claims.

Two additional steps have been taken specifically to help those in need. First, over and above the fee caps for consumers, more than 3,000 arbitrators from our national panel have volunteered to serve on a *pro bono* or reduced fee basis in appropriate cases. Second, for many years, the Association has permitted parties to request a waiver or deferral of the AAA's fees because of financial hardship. That process has now been formalized, and in every case filed with the AAA, any party may apply for a hardship fee reduction, waiver or deferral. The process benchmark is 200% of the Federal Poverty Guidelines along with other relevant financial data. Our redesigned Web site includes an area dedicated to providing information on consumer arbitration.

We are also playing a leadership role in a campaign to educate corporations and other users of arbitration about their responsibility to adhere to the AAA's due process protocols once they have written the AAA into contracts as the arbitration forum of choice. Occasionally, we find that companies lose sight of these responsibilities, undermining public confidence – in consumer cases – of the inherent fairness of the process. This is an important issue, and we intend to put the full weight of our organization behind this continuing education effort.

In a similar vein, we have simplified our membership fee structure, making the substantial benefits of AAA membership available on the same fee basis to corporations and individuals alike. While corporate members did not, of course, gain any advantages in disputes because of their formerly higher level of membership contribution, we thought it important to avoid even the potential appearance – however remote – of any suggestion of influence.

At the same time, we are taking steps to re-enforce at every opportunity the entirely neutral posture of the Association vis-à-vis the arbitrations it oversees and the participants in those proceedings. Our publication last year of our "Statement of Ethical Principals" lays out the importance of integrity, conflict of interest avoidance, confidentiality, commitment to diversity, and fairness standards in the day-to-day life of this organization. Equally important, we continue to emphasize the quality and total independence of our mediators and arbitrators. Providing "exceptional neutrals" is an integral part of our mission, and each year we make a substantial investment in training programs that are mandatory for commercial arbitrators.

We have also launched an educational campaign – advertisements, participation in conferences and trade shows and a broad array of service literature – designed to raise awareness of both the considerable benefits of using dispute prevention and conflict management techniques and the richness of resources the AAA offers toward that end.

A 75TH ANNIVERSARY TRIBUTE TO THE LABOR-MANAGEMENT COMMUNITY

As part of its 75th Anniversary celebration, the AAA published *Labor of Love: A Commemorative History of the American Arbitration Association and the Labor-Management Community*. As the foreword explains, over the Association’s lifetime, literally hundreds of arbitrators and mediators and thousands of AAA staff members have worked together to ensure the integrity and fairness of the process and sensitivity to the parties and their representatives. An historical overview, a series of “recollections, observations and predictions,” and a selection of article reprints, this 78-page booklet chronicles their efforts and portrays the AAA’s relationship with and services to the parties involved in labor negotiations.

In the coming year, we are producing a separate Case Management Action Plan (CMAP) for use by our labor tribunal. CMAP resources – first introduced in 1998 – provide uniformity in our approach to case management across our entire organization. While the labor CMAP module will be built around well established AAA labor policies, the project offers us the opportunity to seek new ways to meet the needs of the labor-management community while streamlining and simplifying labor case management procedures nationwide.

AAA Elections ServicesSM enjoyed an absolute banner year in 2001, administering at least one national election each week. By year end the AAA, the nation’s leading union election administrator for more than half a century, supervised 279 elections, more than 90 of which were for new clients. Without question, the introduction a year ago of electronic voting – either by phone or the Internet – has opened untapped markets for our services in the private election arena.

AN ANNUAL MEETING TO REMEMBER

Our 2001 annual meeting – also part of our 75th Anniversary celebration – proved to be a special event for all of us.

First, it marked a changing of the guard as Dean Feerick, after three years of highly fruitful leadership, stepped down as the Chairman of the Association’s Board of Directors. He is replaced by Edward V. Lahey, Jr., General Counsel of Essex Boat Works, Inc. James H. Carter of Sullivan & Cromwell was chosen to serve as Chairman of the Executive Committee of the Board of Directors. Thirteen new directors were elected to the Board – among them former Attorney General Janet Reno, who spoke as the representative of the incoming group.

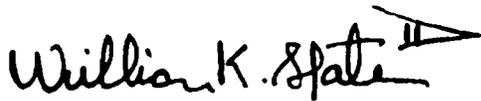
Second, the meeting also marked the inauguration of the American Arbitration Association Peacemaker Award to honor individuals whose dedication to conflict management has helped foster peace in the world. The inaugural award went to the Hon. George J. Mitchell in recognition of his leadership when chairing the peace negotiations in Northern Ireland – a point in time when the governments of Ireland and the United Kingdom reached an historic peace accord.

Finally, it was a time of renewal and strong affirmation for the precepts behind our Vision and Values Project. The spark for this was recognition at the meeting of the recipient of the first President's Award for Living the Values. For many of us, that ceremony, which summed up all that is good about our organization, was the emotional high point of the meeting.

The tenor of that meeting underscores the optimism that all of us feel as we look ahead. The Association has never been stronger, and we believe that the building blocks put in place – particularly in the eCommerce arena – augur well for the future. Our gratitude goes out to our Board for encouraging and supporting our vision and to the entire AAA staff for its remarkable efforts in effecting meaningful change across the entire face of our organization.

In closing, we come back once again to the events of September 11th, and I offer personal thanks to those staff members who put in long hours under difficult conditions as we strove to put our operations back on track in the wake of the attack.

Although we were fortunate not lose any AAA employees on that terrible day, many of us – like most New Yorkers – had friends, colleagues or loved ones who were killed or injured. Our heartfelt condolences go out to their families along with wishes for peace and strength in the time ahead.

A handwritten signature in black ink that reads "William K. Slate II". The signature is written in a cursive style with a large, stylized "W" and "S". There is a small mark above the "I" in "Slate II" that looks like a checkmark or a flourish.

William K. Slate II
President and Chief Executive Officer

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Dr. Siegfried Schwung <i>Vice President, General Counsel Product DaimlerChrysler AG</i>	Richard L. Trumka <i>Secretary – Treasurer American Federation of Labor and Congress of Industrial Organizations</i>	** <i>Proposed Member of the 2002–2003 Executive Committee</i>
John Scriven, Esq. <i>Homburger Rechtsanwaelte</i>	M. Caroline Turner <i>Coors Brewing Company</i>	+ <i>Past Chairman of the Board</i>
Jerome J. Shestack, Esq. <i>Wolf, Block, Schorr and Solis-Cohen LLP</i>		** <i>Honorary Member of the Executive Committee</i>

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I N D E P E N D E N T A U D I T O R S ' R E P O R T

T O T H E B O A R D O F D I R E C T O R S O F
A M E R I C A N A R B I T R A T I O N A S S O C I A T I O N , I N C .

We have audited the accompanying balance sheets of American Arbitration Association, Inc. (the "Association") as of December 31, 2001 and 2000, and the related statements of operations and changes in net assets and of 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, 2001 and 2000, 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.

As is more fully explained in Note 8, the 2000 financial statements have been restated to reflect the correction of an error in the recording of investments.

Deloitte & Touche LLP

March 8, 2002

BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

	2001	2000 (Restated)
ASSETS		
Cash and Cash Equivalents	\$ 3,806,000	\$ 2,019,000
Investments – At fair value (Note 2)	57,215,000	57,523,000
Administration Fees Receivable		
Less allowances for cancellations and uncollectible accounts of \$1,538,000 in 2001 and \$1,252,000 in 2000	18,178,000	18,280,000
Other Receivables (Note 5)	575,000	899,000
Prepaid Expenses and Other Assets (Note 5 & 6)	7,956,000	8,608,000
Deferred Pension Costs (Note 4)	1,264,000	1,485,000
Furnishings, Equipment and Leasehold Improvements – Net (Note 5)	12,784,000	11,135,000
Total Assets	<u>\$101,778,000</u>	<u>\$ 99,949,000</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 51,334,000	\$ 48,366,000
Accrued postretirement medical costs (Note 4)	7,480,000	6,949,000
Accrued pension liability (Note 4)	6,347,000	2,638,000
Deferred revenue	2,836,000	614,000
Total Liabilities	67,997,000	58,567,000
Commitments (Note 3)	–	–
Unrestricted Net Assets	33,781,000	41,382,000
Total Liabilities and Net Assets	<u>\$101,778,000</u>	<u>\$ 99,949,000</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000 (Restated)
OPERATING REVENUES		
Administration fees earned:		
Commercial	\$ 47,309,000	\$ 45,163,000
Accident:		
Uninsured motorist	1,573,000	2,149,000
No-Fault	22,150,000	21,192,000
Labor	4,896,000	5,025,000
Elections	3,695,000	3,701,000
	79,623,000	77,230,000
Publications and education	1,631,000	986,000
Membership dues	1,854,000	2,141,000
	83,108,000	80,357,000
EXPENSES		
Administration of tribunals	76,285,000	70,530,000
Elections	3,350,000	3,164,000
Publications and education	3,781,000	2,588,000
Membership	543,000	568,000
Contribution expense (Note 7)	602,000	392,000
General and administration	4,153,000	4,145,000
	88,714,000	81,387,000
Total expenses	(5,606,000)	(1,030,000)
NON-OPERATING REVENUES AND EXPENSES		
Interest and dividends on investments – Net of Fees	1,393,000	1,414,000
Net gain on sales of investments	1,042,000	564,000
Unrealized investment (loss) gain	(1,275,000)	726,000
Loss on disposal of assets	(173,000)	(297,000)
	(4,619,000)	1,377,000
Change in Net Assets	(4,619,000)	1,377,000
Unrestricted Net Assets, Beginning of Year	41,382,000	40,269,000
Minimum Pension Liability Adjustment (Note 4)	(2,982,000)	(264,000)
	\$ 33,781,000	\$ 41,382,000

See notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,619,000)	\$ 1,377,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization – net	3,153,000	2,031,000
Net gain on sales of investments	(1,042,000)	(564,000)
Postretirement benefits other than pensions	531,000	526,000
Unrealized investment loss (gain)	1,275,000	(726,000)
Loss on the disposal of assets	173,000	297,000
Changes in operating assets and liabilities:		
Decrease (Increase) in administration fees receivable	102,000	(2,986,000)
Decrease in other receivables	324,000	924,000
Decrease in prepaid expenses	1,115,000	733,000
Increase in accounts payable and accrued expenses	3,047,000	15,342,000
Increase in minimum pension liability	948,000	424,000
Increase in deferred revenue	2,222,000	568,000
Net cash provided by operating activities	7,229,000	17,946,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment and leasehold improvements	(4,361,000)	(4,299,000)
Proceeds from sales of investments	105,275,000	54,267,000
Purchase of investments	(105,201,000)	(64,814,000)
Acquisition of ADRWorld.com – Net of cash acquired	–	(148,000)
Software development costs	–	(2,497,000)
In-progress construction	(1,076,000)	(553,000)
Net cash used in investing activities	(5,363,000)	(18,044,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(79,000)	(91,000)
Net cash used in financing activities	(79,000)	(91,000)
Net Increase (Decrease) in Cash and Cash Equivalents	1,787,000	(189,000)
Cash and Cash Equivalents, Beginning of Year	2,019,000	2,208,000
Cash and Cash Equivalents, End of Year	\$ 3,806,000	\$ 2,019,000

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

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.

ADRWorld.com, a Delaware Limited Liability Company, delivers via the internet, ADR news, research and industry information. Operating Results of ADRWorld.com are included in the financial statements.

The Global Center for Dispute Resolution Research ("GCDRR"), a research organization dedicated to exploring the effectiveness and enhancing the utility of business dispute resolution methods throughout the world, is affiliated with the American Arbitration Association. The GCDRR has its own Board of Directors and receives its funding from the Association.

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.

Revenues are recognized as the nonrefundable initial and administrative filing fees are billed. Case service fee revenues are deferred until a hearing has occurred. At December 31, 2001 and 2000 the amounts deferred were \$2,228,000 and \$223,000, respectively.

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. As of January 1, 2002, the membership dues structure has been amended. In accordance with the new structure, all members including individual, corporate and firm members will have to pay a standard fee of \$250.

CONTRIBUTIONS The Association contributes money on a daily basis to fund expenses incurred by GCDRR. In 2001 and 2000, such contributions were \$602,000 and \$392,000, respectively.

CASH AND CASH EQUIVALENTS The Association considers all highly liquid investments with maturities of three months or less on date of purchase to be cash equivalents.

INVESTMENTS Investments are reported at fair 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 and changes in net assets.

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". Goodwill is presently being amortized over a period of five years.

FURNISHINGS, EQUIPMENT AND LEASEHOLD IMPROVEMENTS Furnishings, equipment and leasehold improvements are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the individual asset or over the shorter of the lease term. 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 2000 financial statements have been reclassified to conform to the 2001 presentation.

2 . I N V E S T M E N T S

Investments at December 31, 2001 and 2000 consist of the following:

	2 0 0 1		2 0 0 0	
	Cost	Fair Value	Cost	Fair Value
Domestic				
Equity Securities	\$ 33,166,000	\$ 32,129,000	\$ 31,739,000	\$ 31,826,000
Government and				
Agency Bonds	14,205,000	14,245,000	11,641,000	11,900,000
Corporate Bonds	6,119,000	6,289,000	10,760,000	10,855,000
Foreign Fixed Income	—	—	799,000	798,000
Short-Term Investments	4,552,000	4,552,000	2,144,000	2,144,000
	\$ 58,042,000	\$ 57,215,000	\$ 57,083,000	\$ 57,523,000

Fair values for Government and Corporate Bonds include accrued interest receivable at December 31, 2001 and 2000 of \$154,000 and \$145,000, respectively.

At December 31, 2001 and 2000, the Association has recorded as Government and Agency Bonds, "TBA" contracts worth \$5,024,000 and \$6,843,000, respectively.

3 . C O M M I T M E N T S A N D C O N T I N G E N C I E S

The Association conducts all of its activities from leased office space and is currently a party to various leases that expire between 2002 and 2017. 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, 2001 and 2000 amounted to \$12,315,000 and \$10,373,000, 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,	
2002	\$ 12,648,000
2003	10,882,000
2004	10,039,000
2005	9,017,000
2006	8,872,000
Thereafter	43,171,000
	<hr/>
	\$ 94,629,000
	<hr/> <hr/>

Obligations under a capital lease totaled \$18,000 and \$97,000 at December 31, 2001 and 2000, respectively, and are included in accounts payable.

In 1997, the Association entered into a five-year Letter of Credit agreement totaling \$1,420,000 to guarantee an operating lease rental obligation. Assets maintained in the investment portfolio secure this Letter of Credit.

4 . P E N S I O N A N D O T H E R P O S T R E T I R E M E N T B E N E F I T S P L A N S

The Association maintains a non-contributory, qualified defined benefit pension plan covering all eligible employees. The Association makes contributions to the plan based on actuarial calculations.

As of 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. As of December 31, 2001, the effect of this change on the Association's liabilities and costs is minimal.

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 the 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, 2001 and 2000:

	PENSION BENEFITS		OTHER BENEFITS	
	2001	2000	2001	2000
Benefit obligation at December 31	\$ 27,339,000	\$ 25,792,000	\$ 7,430,000	\$ 6,933,000
Fair value of plan assets at December 31	18,851,000	21,521,000	—	—
Funded status	\$ (8,488,000)	(4,271,000)	(7,430,000)	(6,933,000)
Accrued benefit cost recognized in the Balance Sheets	\$ (6,347,000)	\$ (2,638,000)	\$ (7,480,000)	\$ (6,949,000)
Weighted-average assumption as of December 31				
Discount rate	7.25%	7.50%	7.25%	7.50%
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 6.3% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5.5% for 2006 and remain at that level thereafter.

	PENSION BENEFITS		OTHER BENEFITS	
	2001	2000	2001	2000
Benefit cost	\$ 1,243,000	\$ 844,000	\$ 855,000	\$ 807,000
Employer's contribution	296,000	419,000	324,000	281,000
Plan participants' contributions	14,000	174,000	6,000	5,000
Benefits paid	2,192,000	2,333,000	330,000	287,000

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 in effect on January 1 of such year.

The provisions of Financial Accounting Standards Board Statement No. 87, "Employers' Accounting for Pensions," 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, 2001 and 2000, the Association's additional minimum liability was \$4,509,000 and \$1,748,000, respectively. The related intangible asset was \$1,264,000 and \$1,485,000, respectively. Net assets were adjusted by \$2,982,000 and \$264,000 for 2001 and 2000, respectively, 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 2001 and 2000 of \$6,347,000 and \$2,638,000, respectively, which in 2001 is related to the accrued benefit cost of \$1,838,000 and an additional minimum liability of \$4,509,000.

5 . FURNISHINGS , E Q U I P M E N T A N D L E A S E H O L D I M P R O V E M E N T S

Furnishings, equipment and leasehold improvements for the years ended December 31, 2001 and 2000 were as follows:

	2 0 0 1	2 0 0 0
Furnishings and equipment	\$ 11,971,000	\$ 10,629,000
Leasehold improvements	10,079,000	8,022,000
	22,050,000	18,651,000
Less accumulated depreciation and amortization	9,266,000	7,516,000
	\$ 12,784,000	\$ 11,135,000

In 2001 and 2000, the cost of leasehold improvements has been reduced by \$260,000 and \$543,000, respectively, due from landlords for reimbursement of construction costs. The amounts due are included in Other Receivables.

In 2001 and 2000, the Association recognized a loss of approximately \$173,000 and \$297,000 relating to the disposal of certain assets with original costs totaling \$971,000 and \$1,353,000, respectively.

Included in prepaid expenses are costs associated with the development of software for internal use of \$4,907,000 for both years and \$525,000 and \$0 of accumulated amortization for 2001 and 2000, respectively. The internally developed software is now being used at a majority of offices across the country. Also included in prepaid expenses are in-progress construction costs for leased facilities of \$1,076,000 and \$553,000 for 2001 and 2000, respectively. When placed into service these in-progress construction costs will be included in capital assets and amortized over their estimated useful lives.

6 . A Q U I S I T I O N

On December 7, 2000, the Association purchased ADRWorld.com (“ADRW”), a Delaware Limited Liability Company. 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 \$153,000 and the issuance of Notes Payable totaling \$280,000 to an original investor which were 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.

As of December 31, 2001, the Association has satisfied the outstanding notes payable of \$280,000 to the original investor.

7 . G L O B A L C E N T E R F O R D I S P U T E R E S O L U T I O N R E S E A R C H

In the ordinary course of business, the Association has made contributions to the Global Center for Dispute Resolution Research (“GCDRR”). These contributions, which are used to fund expenses incurred by the GCDRR, reflect an economic interest by the Association. Since the Association maintains only a minority voting interest on the GCDRR’s Board of Directors, the Association does not have direct control over how the GCDRR operates or derives contributions from other members. In accordance with Statement of Position 94-3, “Reporting of Related Entities by Not-for-Profit Organizations,” the Association reports these contributions on the statement of operations and changes in net assets.

In 1998, the Association’s Board of Directors approved the funding of up to \$6,250,000 over a period of 5 years. These contributions are not guaranteed by the Association, but are approved on an annual basis. For the years ended December 31, 2001 and 2000, amounts contributed to GCDRR totaled \$602,000 and \$392,000, respectively.

8 . R E S T A T E M E N T O F P R I O R P E R I O D

During 2001, the Association realized that it had not recorded income relating to a grant of 30,361 shares in John Hancock Financial Services as compensation for surrendering membership rights in John Hancock Mutual Life Insurance Company. As of December 31, 2000 the unrealized net gain for these shares was \$1,142,000. Accordingly, in 2001, the Association restated the statement of operations and changes in net assets for the year ended December 31, 2000 to increase the unrealized gain and change in net assets for the year ended December 31, 2000 to increase the unrealized gain and change in net assets by \$1,142,000 as follows:

	A S O R I G I N A L L Y R E P O R T E D	A S R E S T A T E D
Unrealized investment (loss) gain	\$ (416,000)	\$ 726,000
Change in net assets	235,000	1,377,000



American Arbitration Association
Dispute Resolution Services Worldwide