

BACK-DATING STOCK OPTIONS: MORE TO COME

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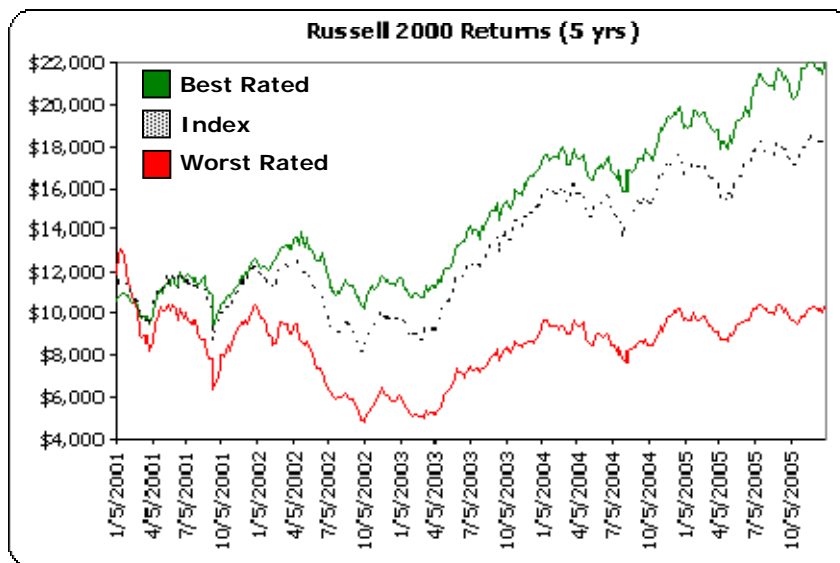
It appears that the back-dating of stock options by corporate executives is far more popular than first imagined. More cases are coming to light daily. These actions are in complete conflict with the interests of the shareholders who are the actual owners of the corporations. The newest revelations are the latest in a series of scandals, with more to come.

It is interesting to note that of the companies currently under investigation for back-dating options, over 60% are rated Aggressive or Very Aggressive by Audit Integrity. This is almost twice the normal expectation of 33%, which is the actual proportion of Aggressive and Very Aggressive companies in the Audit Integrity database.

The pattern continues: companies with low AGR[®] scores continue to run amuck and are being punished in the marketplace with dramatic price declines or eroding relative performance (see chart below).

We are convinced that poor corporate practices will continue to come to light and shareholders in these companies will pay the price with poor stock performance. On the other hand, well-managed, truly transparent companies will continue to outperform their peers generally, and substantially outperform those companies whose management's interests are not aligned with their owners' interests.

Russell 2000 Returns from 2001-2005



The chart above illustrates the returns of the best rated and worst rated companies within the Russell 2000 index over the five period 2001-2005 according to the Audit Integrity AGR[®] Equity Model